

Imperial Tobacco Pension Fund

Statement of Investment Principles – Defined Contribution Section

September 2020

1. Introduction

- 1.1 Imperial Tobacco Trustees Limited (“the Trustee”), as the Trustee of the Imperial Tobacco Pension Fund (the “Fund”), has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Fund’s investments. The Trustee’s investment responsibilities are governed by the Fund’s Trust Deed and Rules.
- 1.2 In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written investment advice from its Investment Consultant Isio Group Limited (“Isio”). In addition, consultation has been undertaken with Imperial Tobacco Ltd (“the Sponsor”) in agreeing this Statement and changes to it, the Fund’s investment arrangements and, in particular on the Trustee’s objectives.
- 1.3 This Statement applies to the Defined Contribution (DC) Section only. There is a separate Statement for the Defined Benefits Section.
- 1.4 This Statement is available to Fund members on request and is published publicly at imperialbrandsplc.com/about-us/governance.
- 1.5 The Trustee will monitor compliance with and review this Statement at least once every three years and will review it without delay if there are relevant, material changes to the investment arrangements, the Fund and/or the Sponsor. Any such review will be based on written expert investment advice and will be in consultation with the Sponsor.

For and on behalf of Imperial Tobacco Trustees Limited, as Trustee of the Imperial Tobacco Pension Fund

Signed

H F Clatworthy

Date 30 September 2020

2. Trustee Investment Objectives

2.1 In relation to the DC Section, the Trustee views its role as the following:

- To establish a default investment option appropriate for the needs of the membership.
- To make available a range of pooled investment funds which serve to meet the needs and risk tolerances of the members in a DC pension arrangement. The Trustee recognises that members of the Fund have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different time horizons and attitudes to risk. The Trustee believes that members should be able to make their own investment decisions based on their individual circumstances.

3. Fund Governance

3.1 The Trustee takes advice from its Investment Consultant and other professional advisers as appropriate. Fees for the Investment Consultant are based on an annually agreed retainer fee, with any work not covered by the retainer charged as a fixed fee or on a time costs basis as agreed in advance.

3.2 The Trustee is responsible for the investment of the Fund's assets and has ultimate control over the decisions on investment strategy. The Trustee decides what to delegate after considering whether it has the necessary internal skills, knowledge and professional support to make informed and effective decisions.

3.3 The Trustee has delegated certain investment powers to an Investment Committee with separate Terms of Reference.

4. Responsible Investment and Corporate Governance (Voting and Engagement)

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

4.2 The Trustee has given appointed Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

4.3 The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in monitoring existing Investment Managers. Monitoring is undertaken on a regular basis and is documented at least annually. In particular, the Trustee makes use of ratings provided by Isio, the Fund's Investment Consultant, to facilitate this.

4.4 Once the Trustee has established ESG beliefs and clarified how these will be incorporated into investment decision making, this will be set out in a separate ESG Policy.

4.5 The Trustee has not set any investment restrictions on the appointed Investment Managers in relation to particular products or activities but may consider this in future.

5. Investment Policies

- 5.1 The Trustee has made available a range of individual self-select fund options for investment in addition to the default investment option. All of the funds allocated to within the default investment option are also available as self-select options. More details specifically related to the default investment option are provided in a separate section of this Statement.
- 5.2 The Trustee delegates the day-to-day investment decisions of the assets in the DC Section of the Fund to a range of Investment Managers through the DC service provider's (Aegon) Platform. The Trustee is responsible for the selection, appointment, removal and monitoring of these external Investment Managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Fund's investments and that the managers are carrying out their work competently.
- 5.3 In considering appropriate investments for the Fund, the Trustee has obtained and considered the written advice of its Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).
- 5.4 The Trustee's policies in relation to the Fund's investment management arrangements with the investment managers are set out in Appendix A.
- 5.5 In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets and therefore should be realisable based on member demand. It is the Trustee's policy to offer both active and passive management options to members, depending on asset class.
- 5.6 A range of asset classes has been made available, including: developed market equities, money market investments, index-linked gilts, diversified growth funds and annuity protection funds.
- 5.7 Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances.
- 5.8 In addition, the Trustee has made available three different lifestyle investment options built to be suitable for a member who wishes to take either cash, an annuity (secured income) or follow income drawdown (variable income) at retirement. The lifestyle switching periods commence eight years before a member's Selected Retirement Age in the Fund.
- 5.9 The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
<p>Inflation Risk</p> <p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<p>The Trustee provides members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation</p>
<p>Pension Conversion Risk</p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The Trustee makes available three lifestyle strategies for DC members, each targeting either cash, drawdown or annuity.</p> <p>These lifestyle strategies increase the proportion of assets that more closely match the chosen retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination).</p>
<p>Market Risk</p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The Trustee provides members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.</p> <p>For the multi-asset funds which are targetting non-market benchmarks this is delegated to Investment Managers.</p>	<p>Monitors the performance of investment funds regularly.</p>
<p>Counterparty Risk</p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>Delegated to external Investment Managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitors the performance of investment funds regularly.</p>
<p>Currency Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>The Trustee provides diversified investment options that invest in local as well as overseas markets and currencies.</p> <p>Delegated to Investment Managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitors the performance of investment funds regularly.</p> <p>Considers the movements in foreign currencies relative to pound sterling in performance reporting.</p>

Risk	How it is managed	How it is measured
<p>Operational Risk</p> <p>A lack of robust internal processes, people and systems.</p>	<p>The Investment Consultant's ratings for fund managers include consideration of management of operational risk.</p>	<p>Concerns regarding operational risk are raised by the Investment Consultant.</p>
<p>Liquidity Risk</p> <p>Assets may not be readily marketable when required.</p>	<p>The Trustee accesses daily dealt and daily priced pooled funds through a unit-linked insurance contract from Aegon.</p>	<p>The pricing and dealing terms of the funds underlying the unit-linked insurance contract.</p>
<p>Valuation Risk</p> <p>The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.</p>	<p>Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external Investment Manager.</p> <p>The majority of Investment Managers invest solely in liquid quoted assets.</p>	<p>The Trustee monitors performance of funds.</p>
<p>Environmental, Social and Governance Risk</p> <p>ESG factors can have a significant effect on the performance of the investments held by the Fund e.g. extreme weather events, poor governance.</p>	<p>Delegated to Investment Managers.</p> <p>The Trustee's policy on ESG factors is set out in Section 3 of this Statement.</p>	<p>The Trustee reviews its Investment Managers' policies and actions in relation to this regularly.</p>
<p>Manager Skill / Alpha Risk</p> <p>Returns from active investment management may not meet expectations, leading to lower than expected returns to members.</p>	<p>The Trustee makes available a number of actively managed funds to DC members where they deem appropriate.</p> <p>The actively managed funds made available are highly rated by its Investment Consultant, based on forward-looking expectations of meeting objectives.</p>	<p>The Trustee considers the ratings of investment strategies from their Investment Consultant during the selection process.</p> <p>Trustee monitors performance and rating of funds on an ongoing basis relative to the fund's benchmark and stated targets/objective</p>

5.10 The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age. It is for this reason that a number of lifestyle options have been made available to members.

Member views, when expressed, relating to all financial and non-financial matters are considered.

DEFAULT INVESTMENT OPTION

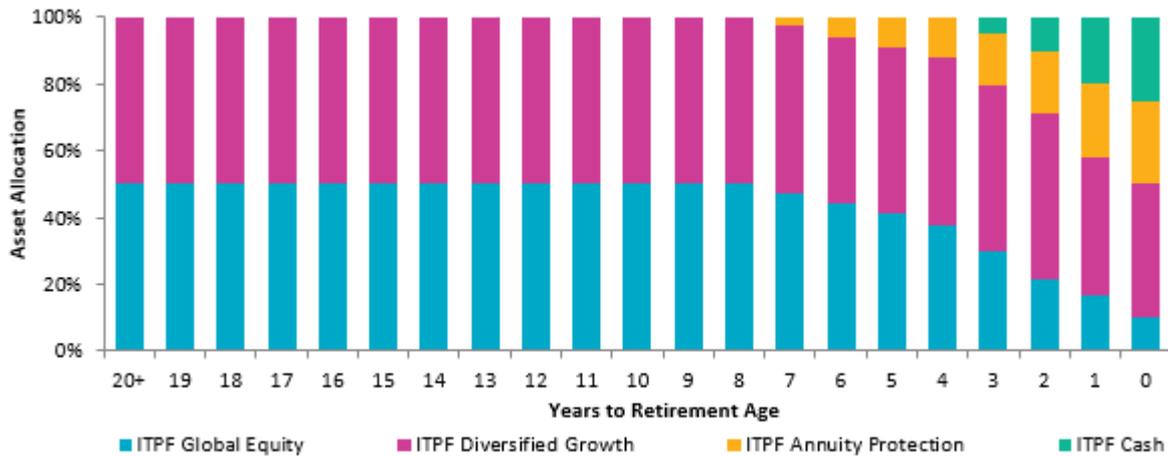
The Trustee recognises that not all members wish to make an active choice that is tailored to their individual circumstances. The vast majority of DC Fund members do not make an active investment decision and are, therefore, invested in the default option. However, it is expected that a proportion of members will actively choose the default option because they feel it is most appropriate for them.

6. Aims and Objectives

- 6.1 The lifestyle strategy targeting variable income drawdown has been chosen as the default investment option by the Trustee. This strategy initially aims to maximise returns, at an appropriate level of risk, for the majority of the members' working life before switching as retirement approaches into diversified funds, to target income drawdown.
- 6.2 The lifestyle strategy's growth phase invests in equities and other growth-seeking assets that will provide growth with some downside protection and some protection against inflation erosion.
- 6.3 As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default strategy which seeks to reduce investment risk as the member approaches retirement is appropriate.
- 6.4 An investment strategy that targets income drawdown at retirement is likely to meet a typical member's requirements for income in retirement. This is based on the Trustee's understanding of the Fund's membership profile. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or choosing their own investment strategy.

7. Investment Policies

- 7.1 In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets and therefore should be realisable based on member demand. The default investment option includes both active and passive management, depending on asset class.
- 7.2 The default variable income lifestyle strategy aims to target an allocation which provides an appropriate retirement position for members wishing to take income drawdown in retirement. The target allocation consists of 30% cash, with the assumption that the average member opting for drawdown will want 25% tax free cash at retirement and then sufficient cash thereafter to meet the first year's expected income requirements. In addition, 50% is allocated to diversified growth assets, with the intention that this is the growth engine for the drawdown portfolio (with lower volatility than an explicit equity allocation given the path dependency issues associated with regular withdrawals). Finally, there is a 20% allocation to a Pre-Retirement Fund as a more defensive allocation as well as being an on-going source of liquidity. The strategy is as follows:



7.3 When designing the current default lifestyle strategy, the Trustee explicitly considered the trade-off between risk and expected returns. Risk was not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The default investment option allocates to a diversified strategic asset allocation consisting of traditional and alternative assets. The asset allocation is consistent with the expected amount of risk that is appropriate given the age of a member and their Selected Retirement Age.

7.4 The Trustee has considered risks from a number of perspectives The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
<p>Inflation Risk</p> <p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<p>During the growth phase of the default investment option the Trustee invests in a diversified range of assets which are likely to grow in real terms. The Trustee monitors the performance of the growth phase against the change in CPI.</p> <p>The default investment options invests in a diversified range of assets which are considered likely to grow in excess fo inflation.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation</p>
<p>Pension Conversion Risk</p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The default investment option is a lifestyle strategy which targets flexible access income drawdown as a retirement destination.</p> <p>The Trustee believes that a strategy targeting drawdown minimises the overall pension conversion risk for the relevant members accessing pots in a different manner (annuity or drawdown).</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation (the retirement destination).</p> <p>As part of the triennial default strategy review, the Trustee ensure the default destination remains appropriate.</p>

Risk	How it is managed	How it is measured
<p>Market Risk</p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p> <p>For the diversified growth funds which are targeting non-market benchmarks this is delegated to Investment Managers.</p>	<p>Monitors the performance of the default investment strategy regularly.</p>
<p>Counterparty Risk</p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>In line with the main DC section.</p> <p>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p>	<p>Monitors the performance of the default investment strategy regularly.</p>
<p>Currency Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>The equity allocation of the default investment option is invested in a fund without a currency hedge. Within the diversified growth funds the currency risk management is delegated to Investment Managers.</p> <p>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p>	<p>Monitors the performance of the default investment strategy regularly.</p> <p>Considers the movements in foreign currencies relative to pound sterling in performance monitoring.</p>
<p>Manager Skill / Alpha Risk</p> <p>Returns from active investment management may not meet expectations, leading to lower than expected returns to members.</p>	<p>In line with the main DC Section.</p> <p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p>	<p>In line with the main DC Section.</p>

7.5 The above items listed in this section of this Statement are in relation to what the Trustee considers 'financially material considerations'. The appropriate time horizon for which to assess these considerations is the same as for the main DC Section.

7.6 Member views, when expressed, relating to all financial and non-financial matters are considered.

8. Member's Best Interests

- 8.1 Taking into account the demographics of the Fund's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the default strategy outlined in this document is appropriate.
- 8.2 In order to ensure this remains appropriate the Trustee will undertake a review the default investment option, at least triennially, or after significant changes to the Fund's demographic, if sooner.

Appendix A

The Trustee has the following policies in relation to the investment management arrangements for the Fund:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Fund is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund’s strategic objective.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> • The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Trustee reviews the performance of all of the Fund’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years. • Investment manager fee rates are reviewed annually to ensure that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> • The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. The investment managers are required to provide transaction cost information on an annual basis, on the slippage cost methodology, for disclosure to members.
<p>The duration of the Fund’s arrangements with the investment managers</p>	<ul style="list-style-type: none"> • The Fund invests in pooled funds, the duration of which is flexible and the Trustee will from time-to-time consider the appropriateness of the fund range and whether they should continue to be held.

Imperial Tobacco Pension Fund

Statement of Investment Principles – Defined Benefits Section

December 2020

1. Introduction

- 1.1 Imperial Tobacco Trustees Limited (“the Trustee”), as the Trustee of the Imperial Tobacco Pension Fund (the “Fund”), has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Fund’s investments. The Trustee’s investment responsibilities are governed by the Fund’s Trust Deed and Rules.
- 1.2 In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written investment advice from its Investment Consultant Isio Group Limited (“Isio”). Where matters described in this Statement may affect the Fund’s funding policy, input has been obtained from the Fund Actuary. In addition, consultation has been undertaken with Imperial Tobacco Ltd (“the Sponsor”) in agreeing this Statement and changes to it, the Fund’s investment arrangements and, in particular on the Trustee’s objectives.
- 1.3 This Statement applies to the Defined Benefit (DB) section only. There is a separate Statement for the Defined Contribution (DC) section.
- 1.4 This Statement is available to Fund members on request and is published publicly at *imperialbrandsplc.com/about-us/governance*.
- 1.5 The Trustee will monitor compliance with and review this Statement at least once every three years, and will review it without delay if there are relevant, material changes to the investment arrangements, the Fund and/or the Sponsor. Any such review will be based on written expert investment advice and will be in consultation with the Sponsor.

For and on behalf of Imperial Tobacco Trustees Limited, as Trustee of the Imperial Tobacco Pension Fund

Signed H F Clatworthy

Date 15 December 2020

2. Fund Governance

- 2.1 The Trustee takes advice from its Investment Consultant, the Fund Actuary and other professional advisers as appropriate. Fees for the Investment Consultant are based on an annually agreed retainer fee, with any work not covered by the retainer charged as a fixed fee or on a time cost basis as agreed in advance.
- 2.2 The Trustee is responsible for the investment of the Fund's assets and has ultimate control over the decisions on investment strategy. The Trustee decides what to delegate after considering whether it has the necessary internal skills, knowledge and professional support to make informed and effective decisions.
- 2.3 The Trustee has delegated certain investment powers to an Investment Committee with separate Terms of Reference.

3. Responsible Investment and Corporate Governance (Voting and Engagement)

- 3.1 The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.
- 3.2 The Trustee has given appointed Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.
- 3.3 The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in monitoring existing Investment Managers. Monitoring is undertaken on a regular basis and is documented at least annually. In particular, the Trustee makes use of ratings provided by Isio, the Fund's Investment Consultant, to facilitate this.
- 3.4 Once the Trustee has established ESG beliefs and clarified how these will be incorporated into investment decision making, this will be set out in a separate ESG Policy.
- 3.5 The Trustee has not set any investment restrictions on the appointed Investment Managers in relation to particular products or activities, but may consider this in future.

4. Investment Objectives

- 4.1 The Trustee's primary investment objective for the DB section is to invest the Fund's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as and when they fall due.
- 4.2 In consultation with the Sponsor, the Trustee has adopted the following specific objectives:
 - 4.2.1 to target an expected return in excess of the growth in the liabilities, which in conjunction with the contributions to be paid by the Sponsor under the agreed Recovery Plan, is consistent with the following funding objective

- 4.2.2 To achieve and maintain an ongoing funding level of at least 100% on a buy-out basis by 2028.
- 4.3 With advice from Isio and the Fund Actuary, the Trustee has determined a target mix of asset types set out in Section 7. It is the intention of the Trustee to review the investment strategy on a regular basis, taking account of all financially material considerations over the Fund's anticipated lifetime.

5. Investment Policies

- 5.1 Overall investment policy falls into two parts:
- 5.1.1 The strategic management of the assets, which is fundamentally the responsibility of the Trustee; and
- 5.1.2 The day to day management of the assets, which is delegated to professional investment management firms, described in Section 8.
- 5.2 Member views, when expressed, relating to all financial and non-financial matters are given due consideration.
- 5.3 In considering appropriate investments for the Fund, the Trustee has obtained and considered the written advice of its Investment Consultant, whom the Trustee believes meet the requirement of Section 35 (5) of the Pensions Act 1995. The advice received and arrangements implemented are, in the Trustee's opinion, also consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

6. Risk and Return Targets

- 6.1 In order to meet the long-term funding objective, the Trustee takes investment risk in order to target a greater return than a pure liability matching portfolio.
- 6.2 Before deciding to take investment risk, the Trustee received appropriate advice and consulted with the Sponsor on the Strategic Investment Benchmark. In particular, the Trustee considered carefully the following possible consequences:
- 6.2.1 The assets might not achieve the excess return relative to the liabilities anticipated over the longer term, potentially resulting in a deterioration of the Fund's financial position. This may result in a requirement for higher contributions from the Sponsor.
- 6.2.2 The relative value of the assets and liabilities may be more volatile over the short term than if investment risk had not been taken. This volatility may expose the Fund to placing more reliance on the support of the Sponsor. This consequence is particularly serious if it coincides with the Sponsor being unable to make good an increased deficit.
- 6.2.3 This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor's contribution rate set at successive actuarial valuations.
- 6.3 The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Fund. The financial strength of the Sponsor and its perceived commitment to the Fund is monitored, and the Trustee will review the investment strategy should either of these deteriorate.

- 6.4 In determining its investment policy, the Trustee has considered a number of financially material investment risks to which the Fund is exposed. As part of this, analysis has been undertaken to understand the Fund's funding level sensitivity to:
- Interest rates
 - Inflation
 - Credit risk
- 6.5 In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with longevity, exposure to overseas currencies and illiquidity.
- 6.6 The Trustee has implemented the following measures to manage the risk associated with the investments:
- 6.6.1 To protect the Fund against changes to interest rates and market-implied inflation, the Trustee has implemented a Liability-Driven Investment ("LDI") strategy designed to replicate the majority of the sensitivities of the Fund's liabilities to these risk factors;
- 6.6.2 To diversify the risks that the Fund faces, the Trustee has set an investment strategy that uses multiple asset types, strategies, regions and sectors;
- 6.6.3 The Investment Managers are responsible for hedging any currency risk to reduce the potential impact of overseas currency exposure on the performance of mandates with exposure outside of the UK; Counterparty risk in derivatives is mitigated by both the Fund and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of derivatives held;
- 6.6.4 The assets are divided between a number of Investment Managers. This reduces the risk associated with one manager having responsibility for all of the Fund's assets;
- 6.6.5 The Trustee has a written agreement in place with the custodian (Northern Trust), which provides reasonable assurances of the physical security of the Fund's assets held by the custodian;
- 6.6.6 The Trustee has considered the liquidity of the Fund's assets in the context of likely cash flow needs, and is comfortable that the Fund's assets strike a suitable balance between accessing higher expected returns from less liquid investments and being able to meet these cash flow needs.
- 6.7 The Trustee monitors these risks on a regular basis and will consider any new financially material risks that may emerge from time to time.

7. Strategic Investment Benchmark

- 7.1 The Trustee's current target investment strategy is set out in the table below. The Fund's actual allocation is compared to this at regular Investment Committee meetings and adjustments are made as appropriate. There are no set ranges around the asset allocation and there may be substantial deviations from the below where the Trustee believe it is appropriate.

Asset Class	Strategic Benchmark
Bonds	70.0
Liability Driven Investments	48.5
Corporate Bonds	21.5
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Cashflow-Driven Alternatives	29.0
Property	6.0
Private Debt	5.0
Ground Lease Property	6.0
Secured Finance	8.5
Multi-Asset Credit	3.5
Cash	1.0
Total	100.0

- 7.2 Using capital market models, the above investment strategy is expected to strike the appropriate balance between expected return and risk, resulting in an acceptable probability of achieving the Trustee's objectives set out in Section 4.
- 7.3 The Trustee, with advice from the Fund's Investment Consultant and Fund Actuary, and in consultation with the Sponsor, reviews the Fund's investment strategy regularly. These reviews consider the Trustee's investment objectives, its ability and willingness to take risk and the appropriate mixture of the different types of investment risk.

8. Investment Manager Structure

- 8.1 Day-to-day management of the assets is delegated to professional Investment Managers who are all regulated.
- 8.2 The Investment Managers have full discretion to buy and sell investments on behalf of the Fund, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and each manages investments for the Fund to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.
- 8.3 The Trustee assesses the continuing suitability of the Fund's Investment Managers via quarterly reporting, the services provided by their Investment Consultant and when meeting each Investment Manager.
- 8.4 The Trustee invests the assets of the Fund via a mixture of pooled funds and direct holdings, under a mixture of active and passive management. The Trustee is satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments for risk management purposes.
- 8.5 The Trustee's policies in relation to the Fund's investment management arrangements with the investment managers are set out in Appendix A.

9. Cashflow Policy

- 9.1 The Trustee has adopted a rebalancing policy to keep the Fund assets broadly in line with the overall strategic benchmark. This is monitored at each Investment Committee meeting.

10. Additional Voluntary Contributions (“AVCs”)

- 10.1 The Trustee has made available a range of unit-linked funds for members of the Fund to invest their AVCs, having taken account of factors such as expected investment performance, risks, charges and administrative efficiency. Some members of the Fund hold AVCs in with-profits investments.

11. Realisation of Investments

- 11.1 The Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. When disinvestment is required in order to meet benefit outgo etc, the Trustee’s agreed policy is for the Investment Committee to determine the necessary disinvestments so as to maintain, as far as possible, the Fund’s overall asset allocation in line with its strategic benchmark as set out in Section 7 of this Statement.

Appendix A

The Trustee has the following policies in relation to the investment management arrangements for the Fund:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Fund is invested in some pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund’s strategic objective. • The Trustee also has some segregated arrangements with the investment managers, thereby allowing investment managers to align their strategy with the Trustee’s policies. This is reviewed on an ongoing basis. • The Fund’s investments in the Hayfin Private Debt mandates and the M&G Secured Finance fund are subject to a performance related fee.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> • The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Trustee reviews the performance of all of the Fund’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years. • Investment manager fees are checked quarterly to make sure the correct amounts have been charged, and the fee rates are reviewed annually to ensure that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> • Investment managers are asked to discuss portfolio turnover costs as part of their regular presentations to the Investment Committee. • The Trustee are in the process of engaging the services of a third party to analyse and optimise the Fund’s investment costs. • In practice, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Fund's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Fund invests in.
 - For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Fund's liquidity requirements.
 - For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.