

The UK Power Networks Pension Scheme

Statement of Investment Principles

September 2026



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Introduction

The Statement of Investment Principles (“SIP”) is a written statement governing decisions about investments for the purposes of an occupational pension scheme. It is a requirement of most occupational schemes that trustees must prepare, maintain and periodically revise the SIP. The SIP must be prepared in accordance with the relevant Pensions Act and Occupational Pension Schemes Regulations and must be updated to reflect any regulatory changes. The SIP must cover at least the following:

- The policy for securing compliance with their statutory duty to choose investments (under section 36 of the Pensions Act 1995, as amended by the Pensions Act 2004);
- Policies relating to:
 - the kinds of investments to be held;
 - the balance between different kinds of investments;
 - risks –including identification and management;
 - the expected return on investments;
 - the realisation of investments;
 - the extent to which the trustees consider social, environmental and ethical factors in selecting, retaining and realising investments;
 - Stewardship policy; and
 - arrangements with asset managers

UK Power Networks (Trustee) Limited (“the Trustee”) prepared this SIP to govern the investment decisions of The UK Power Networks Pension Scheme in order to meet its investment objective.

In preparing the SIP and prior to any future changes to the SIP the Trustee will obtain and consider appropriate investment advice from the appointed Fiduciary Manager, BlackRock Investment Management (UK) Limited (the “Fiduciary Manager”).

The Scheme operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

The Trustee has consulted UK Power Networks Holdings Limited (the “Sponsor”), on the content of this SIP. Any future changes will be subject to a new consultation.

It is the Trustee’s policy to review the SIP every three years and without delay after any significant change in investment policy. As a minimum, the Trustee will review the SIP every three years. The Trustee will notify the Fiduciary Manager of any material changes to the Scheme’s circumstances. Furthermore, any material changes to the employer covenant or Scheme will trigger a strategy review, at which point the Trustee will notify the Fiduciary Manager.

The SIP has been prepared in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005.

The SIP will be made available on a publicly accessible website.

This version of the SIP was agreed on 7 September 2026.

1. Overview of the arrangements

The Trustee has ultimate responsibility for the management of its investment arrangements. It has delegated a number of decisions and responsibilities to specialist providers. As part of the process of delegating these decisions and responsibilities, the Trustee has established clear investment objectives informed by their Investment Beliefs. These investment objectives are explained later in the SIP, and the Investment Beliefs are included in Appendix A of this SIP.

There are a number of parties involved in the Scheme's investment arrangements including:

- Trustee
- Actuary
- The Fiduciary Manager
- Investment managers
- Custodian
- Fiduciary Oversight Manager

The Trustee confirms that all parties to whom it delegates responsibility have the appropriate knowledge and experience required to take on this role. The Trustee expects each party to carry out the duties delegated to it while taking into account the principles contained in the SIP, so far as is reasonably practicable.

2. Scheme Details

The Scheme operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

The UK Power Networks Pension Scheme consists of members' benefits which have accrued under the following arrangements:

- London Electricity 1994 Retirement Plan ("LERP");
- SEEBOARD Final Salary Pension Plan ("FSPP");
- SEEBOARD Pension Investment Plan ("PIP");
- EDF Energy Pension Scheme ("EDF"); and
- New benefits accrued since inception of The UK Power Networks Pension Scheme (the "Scheme").

The benefits for former LERP members in respect of their service up to 1 March 2004 are categorised as 'final salary' from a legal perspective, as they contain a final salary underpin. However, as members are able to choose their own investment options and their retirement benefits will be based on the accumulated "money purchase" funds (unless the underpin applies), from an investment perspective these benefits can be categorised as "money purchase". For the purposes of this Statement therefore, the former LERP benefits are considered as "money purchase".

In addition to the LERP benefits, the Scheme contains the legacy "money purchase" assets of the PIP arrangement. This is a Defined Contribution section for the purposes of compliance with Investment Regulations. The investment policy applicable to the legacy assets under the LERP and PIP pension arrangements, together with the Additional Voluntary Contributions of "AVCs" for all sections of the Scheme are set under the heading of "Defined Contribution" ("DC") Section throughout this Statement.

The investment policy relating to the assets backing the ongoing final salary benefits of the legacy SEEBOARD FSPP arrangement, together with the assets associated with final salary benefits accrued under the EDF pension scheme, i.e. with effect from 1 March 2004, and future final salary benefits accruing under the Scheme are set out under the heading of “Defined Benefit” (“DB”) Section throughout this Statement.

Other sections in the Statement relate to both the legacy assets and assets relating to the benefits accrued inception of The UK Power Networks Pension Scheme.

3. Governance

The Trustee is responsible for setting the general investment policy. It is responsible for ensuring that it is consistent with the Scheme’s funding objectives and its assessment of the strength of the employer covenant as part of its Integrated Risk Management framework.

The Trustee has appointed a Fiduciary Manager who advises on the long-term investment strategy and manages the Scheme’s Defined Benefit Section assets in line with Investment Management Agreement (“IMA”). In addition, the Fiduciary Manager advises on the investment strategy of the Scheme’s Defined Contribution Section assets under a separate investment advisory agreement (“IAA”).

The Fiduciary Manager will also be responsible for advising the Trustee during reviews of this SIP in consultation with the Sponsor.

4. Objectives

The Trustee’s primary objectives in respect of the defined benefit (“DB”) assets are:

- To make sure that the assets can meet the Scheme’s obligations to the beneficiaries of the Scheme; and
- To strike an acceptable balance between the stability of funding and the long-term cost of benefit provision.

The Trustee’s primary investment objectives in respect of the DB Section are outlined below:

- To invest the assets prudently with the intention that the benefits promised to members are provided; and
- To achieve, over the long term, a rate of investment return sufficient to outperform the growth of the Scheme’s liabilities and reach full funding on an appropriate basis while only taking the level of risk required to achieve this objective with a reasonable degree of certainty.

The Trustee has determined an appropriate rate of investment return in excess of the gilt yield used to determine the Scheme’s liabilities to meet these objectives. The Trustee has engaged with its advisers to ensure that excessive risk will not be taken in achieving this level of investment return.

The Trustee’s objectives for the Defined Contribution (“DC”) Section including legacy LERP and PIP assets and Additional Voluntary Contributions (“AVCs”) assets are outlined below:

- To provide an investment strategy which seeks to deliver long term growth and protects the value of accumulated saving as each member gets closer to the normal retirement age of 65.
- To make available a range of investment options, (including options incorporating environmental, social and governance ('ESG') factors), from which members can choose after considering their own risk appetite. This means offering investment choices which:

- maximise the value of members' retirement benefits through investing in assets which will deliver real growth in the long term;
 - allows the member to diversify their pension savings; and
 - protects the accumulated value of their pension savings.
- To simplify investment choices to facilitate employee understanding and greater decision making.

5. Investment Strategy

Defined Benefit Section

The Trustee has reflected its investment objective and investment strategy for the Fiduciary Manager in the parameters of the Investment Management Agreement ("IMA"). The IMA is a legal document between the Trustee and Fiduciary Manager which sets out how the Scheme's assets will be managed to meet the overall objective. The Fiduciary Manager determines an appropriate asset allocation, within certain permitted ranges, which seeks to achieve this objective. In doing so the Fiduciary Manager takes into account the parameters and restrictions contained within the IMA. The IMA is subject to change as the strategy evolves.

Investment Strategy

- To invest in a portfolio of low risk, bond-like assets which aims to hedge a proportion of the interest rate and inflation risk inherent within the Scheme's pension liabilities (the "Matching Portfolio"); and
- To invest in a diversified portfolio of assets to achieve an efficient risk / reward trade off and aim to generate sufficient returns above the pension liabilities to close the Scheme's funding gap (the "Growth Portfolio").

Defined Contribution Section

The Trustee has undertaken an analysis of the membership of the DC section to ensure the investment strategy and the choice of investments meet the needs of the types of members in this section. The Trustee has considered separately the risks to which each section of the Scheme is exposed, which for the DC Section are outlined in Appendix D.

As members are aware there is no default fund, as such members are required to select how their contributions are invested. None of the available investment options are illiquid assets.

Given the investment risk is taken by the member the Trustee has determined that the member must first select between a 'freestyle' or 'lifestyle' option to enable the member to manage their investment risk appetite.

Once this decision has been taken the Trustee has selected a range of funds to be made available to members, which the members may select under the "freestyling" option.

The "lifestyling strategy" requires a minimum of effort and experience from the member, whilst still allowing them to benefit from a strategy which considers their broad requirements and the risks affecting their benefits. The investment strategy is linked to the member's normal retirement age of 65.

The Trustee maintains a separate policy document to set out the range of available funds and the details of the 'lifestyling strategy'.

The IAA between the Trustee and the Fiduciary Manager sets out additional services the Fiduciary Manager will undertake to enable the Trustee to meet annual Value for Money Assessments and other regulatory requirements for defined contribution schemes.

On an annual basis or following a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered, in particular whether the current strategies and fund choices are appropriate.

6. Range of Investments

The Trustee considers risk holistically across the Scheme's portfolio. This means the Scheme's assets are invested across a diverse range of investments. For the DB Section the permissible investments are specified in the IMA. Asset classes and instruments that pension schemes may use as part of their investment strategy include, but are not limited to, the following:

- **Equities** – these are stocks and shares in companies. Equity shares give the holder a share of a company's profits. They are higher risk but usually higher reward investments;
- **Bonds** – these are loans to companies or governments that pay the holder interest. They are less risky than equities, but usually offer lower returns;
- **Alternatives** – these are equities, bonds or other assets that are sourced privately, rather than through public investment markets. This means they are less 'liquid' than public assets, meaning it is usually harder to sell them for cash if you need to before the specified maturity date. However, these assets usually offer higher returns to reward investors for accepting this lower liquidity. They also usually offer diversification benefits versus public assets. The Fiduciary Manager will seek approval from the Trustee prior to investing in this asset class;
- **Derivatives** – the Fiduciary Manager may transact forwards, futures and swaps instruments. These are financial contracts between two counterparties that exchange one set of future payments for another. They are used to transfer investment risk from one party to the other. An example would be to reduce currency risk associated with an investment in an overseas asset;
- **Liability Driven Investments** – these focus on the matching of current and future liabilities of the Scheme using derivatives and physical assets;
- **Other liquid assets** – these assets are liquid in nature and used outside of the strategic investment strategy on a shorter time horizon. They may include non-traditional assets such as commodities, in particular, gold. They aim to provide incremental value above the strategic investment returns; and
- Investments where the primary purpose or investment objective is to obtain exposure to cryptocurrencies or other digital assets is not permitted. This restriction includes direct holdings of such assets and collective investment vehicles, exchange traded funds or similar structures whose principal objective is to provide such exposure.

Notwithstanding the above, the Scheme's Trustee acknowledges that certain investments may provide unintended indirect exposure to cryptocurrencies or other digital assets through their underlying holdings.

7. Realisation of Assets

Assets for the DB section can be held in pooled funds or segregated accounts. The Scheme's ability to disinvest assets for cash is subject to the redemption terms of the asset, which can range from daily to quarterly or sometimes less frequently. Any allocation of the assets to strategies with particularly long redemption timelines will be considered with the Scheme's overall cashflow requirements in mind.

Investment in such assets requires prior Trustee approval.

In the event of a change in yields, the Trustee recognises that the Fiduciary Manager, subject to the constraints within the IMA, has authority and discretion to sell the Scheme's assets to meet recapitalisation requirements in order to meet the Trustee's interest rate and inflation risk targets set within the 'Matching' Portfolio.

8. Risk Management

The Trustee recognises that risks are involved in the investment of the Scheme's assets. The Trustee recognises that the key risk is that it has insufficient assets to pay the benefits as they fall due. This is often called "funding risk".

The Trustee has identified certain risks which have the potential to cause the Scheme's funding level to decrease and therefore contribute to funding risk. These are detailed in Appendix C.

The Trustee manages these risks in a variety of ways, including but not limited to the use of diversification, setting parameters and constraints for the Fiduciary Manager in the IMA and its broader risk management framework.

9. Responsible Investing

The Trustee recognises that Environmental, Social and Governance (ESG) risks could impact the ability of the Scheme to meet its investment objectives. The Trustee has therefore considered how to evaluate and manage these risks when setting its investment strategy (along with other matters). The Trustee shall detail its policies with regards to ESG, stewardship and engagement in the ESG Policy, however a summary of these policies are provided in the paragraphs below and in Section 10.

The Trustee will ensure that the Scheme's Fiduciary Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes.

The Trustee will request that for the DB Section, the Fiduciary Manager:

- Assesses the approach of all the Scheme's investment managers in integrating ESG risks considerations into the selection, retention and realisation of investments as part of their due diligence process.
- Reviews the adherence of the Scheme's investment managers to their ESG principles as part of its ongoing monitoring. They will report on key ESG metrics for the Scheme's investment managers and aggregate these to portfolio level where appropriate. This will take place at least quarterly.
- Reports on its execution of voting and engagement responsibilities set by the Trustee as part of its ongoing quarterly monitoring. Where the Scheme invests in pooled funds, the Trustee recognises that the investment manager of the pooled funds is responsible for exercising voting rights and reporting on how they have exercised those rights.

The Trustee does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life. It is not possible to reflect individual member views as the assets are typically held in pooled arrangements.

However, the Trustee believes that by being a responsible investor, it is managing investment risk with the aim

of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

10. Stewardship

The Trustee understands that stewardship can enhance value over the long term and recognises that it has a responsibility to act as a good steward and protect and grow the long-term value for the benefit of the members.

The Trustee recognises the importance of good stewardship, and it expects that the Fiduciary Manager is a signatory of the UN Principles for Responsible Investment (UN PRI) and the Financial Reporting Council's (FRC) UK Stewardship Code. The Fiduciary Manager has confirmed that it is a signatory of the UN PRI and the UK Stewardship Code.

In order to be a good steward, the Trustee has set a policy which states that the Scheme's respective stakeholders should undertake activities in relation to issues that have a material impact on the long-term value of the Scheme's investments.

The Trustee acknowledges that it retains ultimate responsibility for the way in which each appointed manager acts as a steward of the Scheme's assets, though the Trustee expects the Fiduciary Manager to ensure that the stewardship policy is appropriately implemented as far as is reasonably practicable. The policy includes ensuring to the extent possible that the underlying or external managers exercise on the Trustee's behalf rights and duties as an investor. This should include, where appropriate, voting and engaging with underlying investee companies, as part of an effective stewardship approach that meets the Trustee's expectations. The Trustee expects that voting and engagement activities are carried out in the best financial interests of the assets being managed.

The Trustee has delegated monitoring of underlying or external managers to the Fiduciary Manager. As part of this responsibility, the Fiduciary Manager is expected to:

- Use reasonable efforts to obtain voting and/or stewardship policies of the underlying or external managers.
- Inquire about underlying manager's voting activity with respect to their stated policies, where appropriate.
- Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.
- Provide a summary to the Trustee of the overall level of voting activity on an annual basis.

The Trustee will engage with the Fiduciary Manager to understand any reports which have been provided and challenge any outcomes which they feel are not in keeping with policy. The Fiduciary Manager is expected to engage with the underlying or external managers as and when required to facilitate this. Where an underlying or external manager is not adhering to this policy in line with the Trustee's expectations, the Trustee would expect the Fiduciary Manager to consider appropriate actions having regard to the long-term financial interests of the Scheme.

11. Arrangements with asset managers

The Trustee recognises that the arrangements with all of the managers of the Scheme's assets are important to ensure that its interests are aligned as far as reasonably practicable. This includes arrangements with the

Fiduciary Manager and the underlying or external managers. In particular, the Trustee seeks to ensure that the Fiduciary Manager is incentivised to act in a way which generates the best long-term results for the Scheme.

The Trustee agrees to share the SIP with the Fiduciary Manager and requests that the Fiduciary Manager reviews the SIP and confirms that it is aligned with the Trustee's policies.

The Trustee's arrangements with asset managers take into account the following five considerations:

1. How the arrangement with the Fiduciary Manager incentivises the Fiduciary Manager to align its investment strategy and investment decisions with the Trustee's investment policies.
2. How that arrangement incentivises the Fiduciary Manager to make decisions based on assessments about the medium to long-term financial and non-financial performance of issuers of debt or equity.
3. How the method and time horizon of the evaluation of the Fiduciary Manager's performance and the remuneration for services are in line with the Trustee's investment policies.
4. How the Trustee monitors "portfolio turnover costs" incurred by the Fiduciary Manager, and how they define and monitor targeted portfolio turnover or turnover range.
5. The duration of the arrangement with the Fiduciary Manager.

In order to address the above considerations, the Trustee has set out a range of actions and expectations below.

The Trustee recognises that there are different ways to engage with its managers including legal documentation as well as more informal arrangements such as ad hoc communication and reporting and monitoring deliverables provided by each manager.

The Trustee recognises that the predominant manager it has arrangements with is the Fiduciary Manager. The arrangement is governed by the IMA between the Trustee and the Fiduciary Manager. The Trustee ensures that appropriate restrictions are outlined in the IMA in order to seek to ensure that the decisions which the Fiduciary Manager makes are in line with the long-term interests of the Scheme. This includes, but is not limited to, setting a clear investment objective, eligible instruments, asset allocation ranges and which asset classes are in scope for active and/or passive strategies.

The Trustee has also ensured that the IMA (and the supplemental disclosures provided by BlackRock) include conflicts of interest policies in order to seek to ensure that incentives are aligned between the Trustee and the Fiduciary Manager as far as is reasonably practicable.

The Fiduciary Manager provides the Trustee with an annual cost transparency report. The report provides information in line with latest regulatory requirements for fiduciary managers. The cost reporting will include detail on the portfolio turnover costs which the Trustee defines as the costs incurred in buying and selling the underlying securities held within each of the funds managed by the underlying managers. The cost reporting will also enable the Trustee to monitor that the portfolio turnover of the underlying funds is appropriate with respect to the targeted portfolio turnover, which the Trustee defines as the frequency within which the securities are expected to be bought or sold. On a quarterly basis, the Fiduciary Manager reports total performance net of fees so that the Trustee is able to take into account the impact of fees and costs when evaluating performance. The Trustee believes that in order to appropriately assess the performance of its managers, the net of costs performance returns should be monitored over various time periods to ensure that managers are evaluated in line with the Trustee's policies.

The Trustee will review the arrangements with the Fiduciary Manager on a regular basis, however there is no restriction on the duration of any arrangement.

The Trustee expects that the Fiduciary Manager will review arrangements with the underlying or external managers which also have no restriction on duration of any arrangement. The Fiduciary Manager is expected to review these arrangements on an ongoing basis and take action to seek to revise any arrangements where it is understood to be in the best long-term interests of the Scheme. The Trustee recognises that turnover of underlying managers may incur costs however it acknowledges that this is necessary to ensure the Scheme's assets are managed in a way which is in the best long-term interests of the Scheme.

The Fiduciary Manager is expected to take into consideration the Trustee's investment objective as well as Responsible Investing and Stewardship policies when selecting and/or appointing new underlying or external managers.

The Trustee believes that it has a clear governance framework in place in order to seek to ensure that the Fiduciary Manager's actions are aligned with the five arrangements policies listed above. If the Trustee has reason to believe that the Fiduciary Manager is acting outside of the Trustee's policies, then the Trustee will bring this to the attention of the Fiduciary Manager as soon as is reasonably practicable and engage with the Fiduciary Manager so that the parties can understand such actions and seek to resolve any concerns.

12. Monitoring

The Trustee monitors the performance and risk exposures of the portfolio on a regular basis. The Trustee receives periodic reports providing information including but not limited to:

- Explanation of funding level performance over the period, referring to the economic environment, investment market moves and the Scheme's portfolio positioning
- The risks being taken in the assets, including the outcome of 'stress testing'
- Asset allocation summary versus any IMA constraints
- ESG metrics
- Voting and cost disclosures, in line with the latest regulatory requirements

Monitoring of the underlying investment managers' suitability is delegated to the Fiduciary Manager. The Fiduciary Manager has been delegated the responsibility for ensuring the pooled fund and separately managed account investments are satisfactory and appropriate for the investment strategy.

The performance of the Fiduciary Manager will be independently assessed by a specialist fiduciary oversight firm appointed by the Trustee.

Signed for and on behalf of the Trustee

Andrew Pace
Chair of the Trustee of The UK Power Networks Pension Scheme

7 September 2026

Appendix A – Investment Beliefs

The Trustee has set 8 Investment Beliefs against which it will objectively set its overall investment strategy

1) Investment objectives

- a) We believe that the success or failure of the Scheme's investment strategy should be judged relative to its liabilities, long-term funding goals and unique circumstances and constraints.
- b) These unique circumstances include, but are not limited to, the maturity profile of the scheme, whether the scheme is open or closed and the strength of the sponsor covenant.

2) Governance

- a) We believe that clear investment objectives and accountability improve the likelihood of achieving the Scheme's objectives.
- b) We believe that the Trustee should set the strategic direction of the investment strategy including the allowable asset classes, overall risk and return profile and hedging strategy.
- c) Precise asset allocation and implementation decisions should be made by the Fiduciary Manager with oversight by the Trustee.

3) Investment Strategy

- a) We believe that strategic asset allocation is a more important driver of returns than manager or stock selection.
- b) We believe that long-term strategy will be the primary driver of returns, but short-to- medium term dynamic asset allocation can also add value.

4) Active Management

- a) We believe that active management can add value over the long term; though it is difficult to identify skilled active managers.
- b) We believe that active management can add value but should only be used where we have high conviction it will generate additional returns net of fees and costs over the long term.
- c) We also believe that active management should be adopted where the underlying drivers of the active return cannot be accessed in a cost effective manner or not available or appropriate such as within alternative asset classes.

5) Risk

- a) We believe that risk is multi-faceted and best understood and monitored using a range of quantitative and qualitative approaches covering assets, factors (macro-economic and style) and sustainability considerations. A portfolio should be diversified across rewarded sources of risks and exposures to unrewarded risks reduced.

6) Value for Money

- a) We believe that investment fees and transition costs are an important consideration when assessing the merits of an investment.
- b) These fees should be assessed in conjunction with risk taken to achieve the required return –The risk adjusted return net of costs.

7) Environmental, Social and Corporate Governance

- a) We believe that well governed companies that manage their businesses in a responsible way will produce higher returns over the long term.
- b) We believe that investing responsibly and engaging as long-term owners reduces risk over time and may positively impact scheme returns as the long term sustainability of business models is improved.
- c) We believe that the Scheme's investment managers and fiduciary manager are best placed to implement appropriate policies with respect to good stewardship principles and the incorporation of ESG factors into investment decisions wherever it is reasonably clear that doing so will add value to the Scheme's investment strategy.
- d) The Scheme's Fiduciary Manager is responsible for assessing and monitoring the investment managers with regards to ESG considerations. The Trustee should retain oversight of these programmes.

8) Climate Change

- a) We recognise climate change as a significant, systemic risk faced by the Scheme and that failure to consider the risks and opportunities it presents could impact the security of members' benefits over the short, medium and long term.
- b) We are supportive of the UK's transition to a lower carbon economy, giving due consideration to such risks and opportunities, and through ensuring compliance with all relevant legislation and considering, with support from our advisers, all regulatory guidance and best practice.

Appendix B – Investment Policies

Trustees are now required to provide additional information regarding their approach to stewardship in the Statement of Investment Principles. As such, this document makes reference to a number of Trustee policies regarding the alignment and governance of the appointed asset managers. This document is intended to provide a summary of the guiding policies that the Trustee wishes the asset manager to implement.

This document outlines the Trustee's policy in each of these areas:

- **How the trustees incentivise managers to align their investment strategy with the trustees' own**

The Trustee has appointed a Fiduciary Manager as its asset manager. The terms of the Fiduciary Management Agreement set out the Trustee's desired deliverables and also how the FM will be rewarded, being linked to the delivery of the Trustee's primary investment objective. This Agreement delegates responsibility for the appointment of the underlying asset managers which creates a natural alignment of objectives between the Fiduciary Manager and underlying asset managers.

- **How they incentivise the manager to assess investee companies' medium to long-term financial and non-financial performance, and engage accordingly**

The Trustee believes this is best through the ESG parameters. The Trustee seeks to improve the ESG characteristics of the portfolio increases over time. The Trustee believes that there should be a clear set of parameters (including ESG parameters) against which the portfolio is assessed, with a clear expectation that the ratings improve over time. The Trustee also recognises that industry standards are changing and so will need to reassess the parameters from time to time

- **How the method and time horizon for evaluating the manager's performance, and the basis of its remuneration, are aligned with the trustees' other investment policies**

The Trustee believes that formal evaluation of the Fiduciary Manager is best undertaken by an external specialist. This performance assessment should be undertaken at no longer than 3 year intervals and will include, performance, fee and capability benchmarking (including non-financial matters) against an appropriate peer group.

- **How the Trustee define and monitor their targeted portfolio turnover or turnover range**

The Trustee has set a reporting framework that incorporates a number of items, including costs and charges. Furthermore, costs are included within the external evaluation process for benchmarking.

- **The duration of their management arrangement**

Investing is a long term activity and therefore the Trustee does not feel that determining a duration of the management agreement to be the best way to incentivise their Fiduciary Manager. The Trustee will determine the duration of the agreement with direct reference to the outcome of the performance evaluation process.

Appendix C – Risks: DB Benefits

Risk	Description
Mismatching Risk	The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. The Trustee and its advisers considers this mismatching risk when setting the investment strategy.
Cashflow risk	The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities. The asset allocation has taken into account the Scheme's expected liability cashflow profile from the most recent Actuarial Valuation. This should offer sufficient liquidity to meet liquidity needs. Should liquidity requirements change then the Trustee will notify the Fiduciary Manager and update the IMA accordingly.
Fiduciary Manager risk	The failure by the Fiduciary Manager to achieve the rate of return required to meet the investment objective. This risk is considered by the Trustee upon the initial appointment of the Fiduciary Manager and on an ongoing basis thereafter (for example by regular monitoring).
Risk of lack of diversification	The failure to spread investment risk. The Scheme's assets are invested across a range of investments representing different assets classes in order to target the Scheme's objective, as set out in the IMA.
Covenant risk	The possibility of failure of the Scheme's Sponsor. The Trustee considers this risk by taking external advice when setting investment strategy and consults with the Sponsor as to the suitability of the proposed strategy.
Currency risk	The risk that exposure to overseas currencies has an adverse influence on investment values. The Trustee considers this risk when setting the Scheme's investment strategy and this is managed risk by hedging a proportion of the overseas currency exposure.
ESG Risks	The risk that Environmental, Social and Governance (ESG) factors, including but not limited to climate change, have an adverse effect on the long-term performance of the assets. The Trustee requires that the Fiduciary Manager explicitly incorporates ESG information into investment decisions, including when considering the appointment and de-selection of investment managers.
Custodian risk	The risk that a custodian defaults. Assets are managed primarily within pooled funds and custody-related risks in relation to underlying pooled fund investments are managed by management companies or operators of such pooled funds. Outside of the pooled fund investments, the Trustee works with the Scheme custodian (BNY Mellon) to manage cashflows and settle trades on time.
Event risk	The risk that events outside the control of the Scheme have an adverse influence on investment values. The Trustee periodically reviews stress tests on the portfolio to understand the effect that extreme events could have on the Scheme's funding level so that it is able to react accordingly. In addition, the Scheme invests in a diversified portfolio of assets to help manage event risk.
Counterparty risk	The risk that a counterparty fails to fulfil its side of the agreement it makes in connection with derivative transactions. The Trustee has appointed the Fiduciary Manager to mitigate this risk by assessing the credit quality of the counterparties it transacts with, ensures appropriate counterparty diversification and that collateral payments are made where required or delegating through to underlying managers.
Operational risk	The risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers 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.

Appendix D – Risks: DC Benefits

Risk	Description
Investment Risk	Whilst the actual investment risk is carried by the member, the Trustee recognises the risk that low investment returns over members' working lives might result in an inadequate pension. The Trustee has made available a number of equity-based strategies which seek to maximise the real value of each member's investment when the member's retirement is far away. The Trustee is also aware that relative market movements in the years just prior to retirement may lead to a substantial reduction in a member's pension and tax-free cash. The Trustee has made available a diversified growth fund, a bond fund, and a cash fund, which can assist a member in reducing the volatility of their pension fund. For those members not wishing to actively manage the investment of their pension fund, the Scheme also provides a Lifestyle strategy, which incorporates the above considerations (i.e. the need to maximise the real value of each member's investment over their working life by investing in equities before gradually switching to lower risk bonds and cash as retirement approaches to protect the value of accumulated funds).
Concentration risk	The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee therefore makes available a range of investment options, to enable members to achieve a diversified holding.
Performance risk	The Trustee realises that there is a risk that the performance of the manager may deviate from their specified benchmark, and that this risk is greater when there is active management of the assets. The Trustee currently only offers passively managed funds but may choose to include actively managed funds where it believes that active management may offer enhanced returns.
Governance/ Fraud risk	Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives regular reports from the investment managers and the Fiduciary Manager. By appointing investment managers and utilising their pooled vehicles, the safe custody of the Scheme's assets is delegated to professional custodians.