

Victrex Pension Fund

Statement of Investment Principles

1 Introduction

- 1.1 This is the Statement of Investment Principles prepared by the Trustee of the Victrex Pension Fund (“the Fund”). This statement sets down the principles governing decisions about investments for the Fund to meet the requirements of:
- the Pensions Act 1995, as amended by the Pensions Act 2004, and
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2 In preparing this statement the Trustee has consulted Victrex Manufacturing Limited and Invibio Limited (“the Employers”) and obtained advice from Barnett Waddingham, the Trustee’s investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3 This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4 The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.
- 1.5 The investment powers of the Trustee are set out in Clause 10 of the Definitive Deed and Rules, dated 30 March 2016. This statement is consistent with those powers.

2 Sections

- 2.1 The Fund consists of the Defined Benefits (“DB”) Section and the Defined Contributions (“DC”) Section.

3 Choosing Investments

- 3.1 The Trustee considers their Investment Objectives, shown in the appendices, when choosing appropriate investments for the DB Section and designing the range of investment options (Lifestyle and Self Select Funds) to offer to its members on the DC Section. The Trustee also acknowledges that DC Section members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Fund.
- 3.2 The Trustee’s policy for the DB section is to set the overall investment target and then monitor the performance of their managers against that target. For the DC section, the Trustee’s policy is to select suitable investment funds into which members can choose to invest their contributions and those contributions made by the Employers on their behalf. Details of these are given in the appendix. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.
- 3.3 The day-to-day management of the Fund’s assets is delegated to one or more fund managers. The Fund’s fund managers are detailed in the Appendices to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

- 3.4 The Trustee reviews the appropriateness of the Fund's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set. The Trustee will also consult the employers before amending the investment strategy.

4 Investment Objectives

- 4.1 The Trustee has discussed and agreed key investment objectives in light of the Fund's circumstances as well as the constraints the Trustee faces in achieving these objectives. In relation to the DC Section, this includes an analysis of the Fund's membership profile. These are set out in Appendix 2.

5 Kinds of investments to be held

- 5.1 The Fund is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 5.2 Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.
- 5.3 The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Fund's auditors.

6 The balance between different kinds of investments

- 6.1 The Fund invests for the DB section in assets that are expected to achieve the Fund's objectives. The allocation between different asset classes is contained within Appendix 1.
- 6.2 DC section members can choose to invest in any of the funds detailed in Appendix 2 or can select to join a lifestyle strategy. Where members do not choose where their contributions, and those made on their behalf by the Employers, are invested, the Trustee will invest these contributions according to a default strategy which is detailed in Appendix 2.
- 6.3 The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this Statement.
- 6.4 From time to time the Fund may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short-term cashflow requirements or any other unexpected items.
- 6.5 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the DB and DC sections will be expected to change as the Fund's liability profile matures and the Fund's membership profile changes.

7 Risks

7.1 The Trustee has considered the following risks for the DB section of the Fund with regard to its investment policy and the Fund's liabilities:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Fund's Statement of Funding Principles.
Asset allocation risk	The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustee.
Fund manager risk	The Trustee monitors each of the Fund's fund managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Fund and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Fund's investments in order to avoid unexpected losses.
Concentration risk	Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Loss of investment risk	The risk of loss of investment by each fund manager and custodian is assessed by the Trustee.
Liquidity risk	The Fund invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Fund's cash flow requirements. The Fund's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
Covenant risk	The creditworthiness of the employers and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.

Solvency and mismatching risk

Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Fund's funding basis.

Currency risk

The Fund's liabilities are denominated in sterling. The Fund may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

7.2 Risk in a defined contribution scheme lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. The main investment risks affecting all members in the DC Section are:

Inflation risk

The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.

Conversion risk

The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangements made available through the Fund (see Appendix 2), the Trustee changes the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustee expects members to access their retirement savings. The Trustee keeps under review the appropriateness of the strategies.

Retirement income risk

The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised.

Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member.

Investment manager risk

The Trustee monitors the performance of the Fund's investment managers on a regular basis in addition to having meetings with them from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how the investment manager may operate.

Governance risk

Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.

ESG/Climate risk

The Trustees have considered long-term financial risks to the Fund and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Fund's investments in order to avoid unexpected losses.

Concentration/ Market risk	Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The Fund may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by the investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee also will undertake a review of the internal controls and processes of each of the investment managers where necessary.

8 Expected return on investments

- 8.1 The Trustee has regard to the relative investment return and risk that each asset class is expected to provide, net of fees. The day-to-day selection of investments is delegated to the fund managers. The Trustee chooses a range of funds in order to allow members of the DC section to achieve appropriate desired returns and risk. The Trustee selects managers based upon their perceived ability to achieve the aims of their funds. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts.
- 8.2 The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 8.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

9 Realisation of investments

- 9.1 The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.
- 9.2 Ultimately, the investments will all have to be sold when the life of the DB section of the Fund comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Fund accounts.
- 9.3 The Trustee has considered the rights of members of the DC section to switch between funds and to disinvest on retirement, or for other permitted reasons. Members also have flexibility over what age they choose to retire at. The Trustee has therefore predominantly selected investment vehicles which permit the realisation of holdings at relatively short notice. Where investment vehicles are included which have longer realisation periods, this will be made clear to members.

10 Environmental, Social and Governance considerations and investment stewardship

The Trustee has set policies in relation to these matters and these are set out in Appendix 3.

11 Monitoring

- 11.1 Investment Performance: The Trustee reviews the performance of each fund/investment option against the stated performance objective and, in doing this, the Trustee receives a performance monitoring report

on a regular basis. This monitoring takes into account both short-term and long-term performance. The investment managers' overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances. The Trustee meets the Fund's fund managers as frequently as is appropriate, in order to review performance.

11.2 Objectives:

- DB Section: The Trustee monitors the overall strategy, taking into account aspects such as the Fund's funding position.
- DC Section: The Trustee monitors the suitability of the objectives for the Fund (as detailed in Appendix 2) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

11.3 DC Section Investment Choices: The Trustee monitors the ongoing appropriateness of the investment choices offered to members on a periodic basis.

12 Agreement

12.1 This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Employers, the fund managers, the Fund Actuary and the Fund auditor upon request.

Signed:..... Date:

On behalf of the Trustee of the Victrex Pension Fund

Appendix 1 Note on investment policy of the Fund's DB section as at September 2020 in relation to the current Statement of Investment Principles

The balance between different kinds of investment

The Trustee's main investment objectives are:

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to achieve a long-term positive real return;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Fund's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the participating employers, the cost of current and future benefits which the Fund provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Fund by maximising the return on the assets whilst having regard to the above objectives.

The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Fund's liabilities in the DB section at any time. The Trustee has obtained exposure to investments that they expect will meet the Fund's objectives.

Choosing investments

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the fund:

- Baillie Gifford;
- Baring Asset Management;
- BMO Global Asset Management (trading name of F&C Fund Management Limited/ F&C Management Limited).

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters.

Fee agreements

The fee arrangements with the investment managers are summarised in the Trustee's Investment Manager Fee Summary document.

Barnett Waddingham is remunerated on either a fixed fee or a time cost basis depending on the scope of the work being carried out.

The Trustee has AVC arrangements with Baillie Gifford, Barings and Legal and General for the receipt of members' Additional Voluntary Contributions. The arrangements are reviewed from time to time alongside the DC Section.

Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes:

- UK & Overseas Equities;
- Multi Asset Growth (Diversified Growth) Funds
- Multi Asset Credit;
- Liability Driven Investment funds.

The balance between different kinds of investment and rebalancing

The long-term target asset allocation has been agreed after considering the Fund's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for each fund manager are given below:

Manager	Fund	Benchmark	Objective
Baillie Gifford	Diversified Growth Fund	UK Base Rate	Outperform benchmark by at least 3.5% p.a. (net) over rolling 5 year periods with <10% p.a. volatility
	Global Alpha Pension Fund (equity fund)	MSCI AC World Index	Outperform benchmark by 2.0-3.0% p.a. (gross) over rolling 5 year periods
	Multi Asset Growth Fund	UK Base Rate	Outperform benchmark by 3.5% p.a. (net) over rolling 5 year periods with <10% p.a. volatility
Baring Asset Management	Global High Yield Credit Strategies Fund (Multi Asset Credit Fund)	3 Month GBP LIBOR	Outperform benchmark by 5% (after fees) over a full credit cycle
BMO Global Asset Management	F&C Dynamic LDI Funds	The liability profile of a "typical" UK defined benefit pension scheme	Provide liability hedging by offering interest rate and inflation risk protection
	F&C Sterling Liquidity Fund	7 Day LIBID	Generate return in line with benchmark with high levels of liquidity
	F&C Diversified Growth Fund	1 Month GBP LIBOR	Outperform the benchmark by 4% over a 5 year period

The performance of fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

As at May 2018, the Fund had a long-term target asset allocation in respect of its funded liabilities as set out in the table below:

Portfolio	Assets	Allocation	
Return-seeking Portfolio	Diversified Growth Funds ("DGFs")*	10%	
	Global Equity (with Baillie Gifford)	10%	50%
	Multi Asset Credit (with Barings)	30%	
Protection Portfolio	Liability Driven Investment (with BMO)	50%	50%
Total		100%	

* The DGF allocation is split between two funds: the BMO F&C DGF and Baillie Gifford DGF.

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee monitors the Fund's asset allocation periodically to ensure it remains appropriate given the profile of the Fund's liabilities.

Investment of new money

New money is typically invested to rebalance the overall asset allocation towards the allocation above.

Realisation of investments

The Fund's cash flow requirements (not met through income received) are expected to be met either by any further contributions from the Employer or from disinvesting some of the Fund's investments, usually to move the overall asset allocation in line with the long-term asset allocation.

Appendix 2 Note on investment policy of the Fund's DC section as at September 2020 in relation to the current Statement of Investment Principles

The balance between different kinds of investment

The Trustee's main investment objectives are:

- to provide a suitable default investment option that is likely to be suitable for a typical member;
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives;
- seek to achieve good member outcomes net of fees and subject to acceptable levels of risk;
- to reduce the risk of the assets failing to meet projected retirement income levels.

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

The Trustee has made available a range of funds to suit the individual needs of the Fund's members ("Self Select Funds") wanting to manage their own asset allocation decisions. The Trustee has considered potential asset classes and provided potential exposure to those detailed in Section 3.

Alternatively, the Trustee has made available two Lifestyle Options. These are designed to help manage members' pension investments for the duration of their membership of the Fund for those who want their Retirement Account (the member's pot) to follow a pre-set investment approach with an asset allocation that is managed for them. However, members should ensure that this investment option is appropriate to their individual circumstances and retirement needs.

Under a Lifestyle option, their Retirement Account will be automatically moved between investment funds according to how long they have until they plan to retire, i.e. the period until their Selected Retirement Age. As such, these arrangements may be more suitable for individuals who prefer not to take an active role in managing their own pension investments using the Self Select investment options.

Both of the New Lifestyle Arrangements seek to achieve higher long-term investment returns when members are a long way from their Selected Retirement Age by investing in more volatile assets such as equities. As they move closer to their Selected Retirement Age, investments automatically switch into a blend of assets that is expected to be a suitable investment strategy for a typical member that wishes to receive certain types of benefits:

- The Victrex Flexible Retirement Lifestyle Investment Option is designed for members who plan to drawdown their pension savings in retirement, transferring their pension savings at retirement to another pension arrangement outside of the Fund that offers Drawdown.
- The Victrex Target-Annuity Lifestyle Investment Option is designed for members who plan to use their Retirement Account to purchase an annuity (part of which may be taken as a tax free cash lump sum).

Default option(s)

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed the Fund's membership profile, the Trustee decided that the

lifestyle arrangement(s) set out below represent suitable default investment options for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested, taking into account:

- Kinds of investments to be held
- The balance between different kinds of investments
- Investment risks
- Expected return on investments
- Realisation of investments
- Socially Responsible Investment, Corporate Governance and Voting Rights

The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries. Further information on the Trustee's policies in regard to the default options are detailed in the main body of this statement.

The Default Fund is the **Victrex Flexible Retirement Lifestyle Investment Option** for all new members from April 2018 as well as members that were over 5 years from their Selected Retirement Age at 1 April 2018 and previously invested in either the Cautious or Adventurous Lifestyle Arrangements. For members that were within 5 years of their Selected Retirement Age at 1 April 2018 and previously invested in either the Cautious or Adventurous Lifestyle Arrangements, the Default arrangement for these members is the **Victrex Target Annuity Lifestyle Option** and they are invested in this unless they make an active decision to invest elsewhere. The statements made in the main body of this Statement of Investment Principles also apply to the default arrangements.

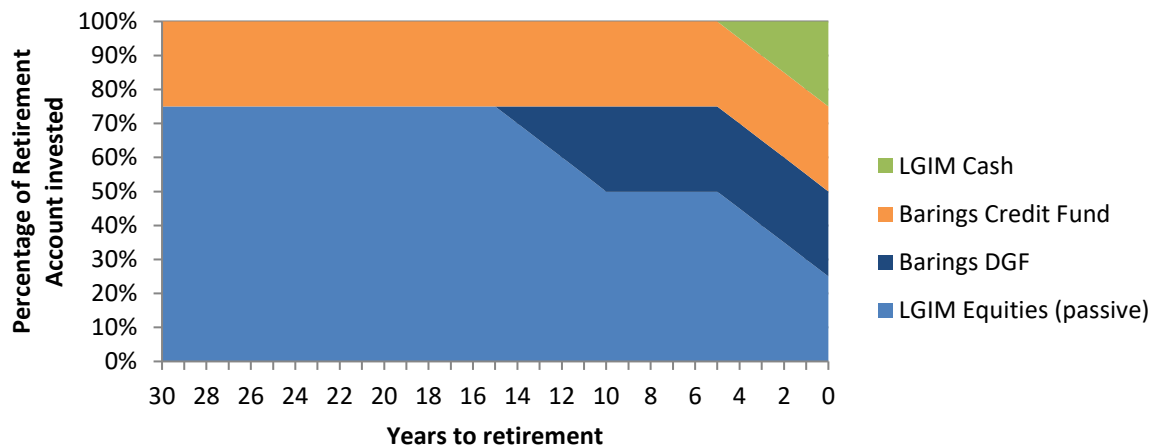
Victrex Flexible Retirement Lifestyle Investment Option

The Trustee has chosen the asset mix of this arrangement following advice from their professional investment advisors. The membership analysis of the Fund concluded that given the expected pot size of members at retirement, the average member would be expected to be planning to Drawdown in retirement (by transferring their Retirement Account out of the Fund at retirement to a separate pension arrangement in order to access Drawdown). As a reminder, the Fund does not offer Drawdown. The asset mix of this strategy was chosen as a reasonable one for a member wishing to Drawdown in retirement; as members approach retirement this strategy aims to retain a reasonable return expectation, dampen volatility of returns, broadly match the type of asset allocation that a Drawdown provider might have and match the expectation that that members will take around 25% of funds in cash as a lump sum at retirement.

The underlying investment funds used in the Victrex Flexible Retirement Lifestyle Investment Option are the following:

- Baring Multi Asset Fund (Barings Diversified Growth Fund ['DGF'] in the chart below)
- Barings Global High Yield Credit Strategies Fund (Barings Credit Fund in the chart below)
- LGIM UK Equity Index Fund
- LGIM World (ex-UK) Equity Index Fund
- LGIM Cash Fund

Detailed below is an overview of how the asset allocation changes over time. Please note that the switches take place automatically on a yearly basis, as shown in the graph below:



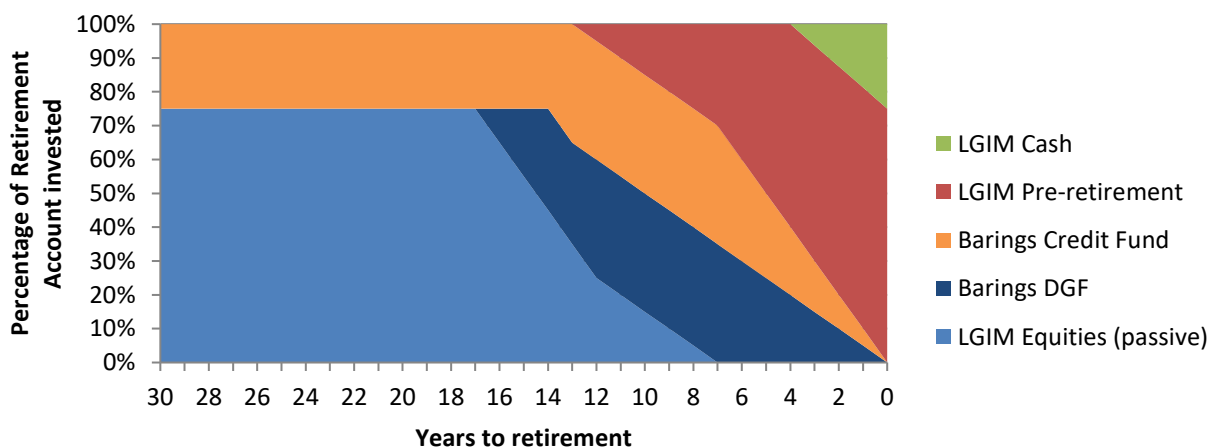
Note that the LGIM Equities consists of a 25% allocation to UK equities and 75% allocation to World (ex-UK) equities.

Victrex Target Annuity Lifestyle Option

The Victrex Target-Annuity Lifestyle Investment Option most closely matches the Cautious or Adventurous Lifestyle Arrangements that were previously available to members prior to April 2018 out of the investment options available going forward. The Victrex Target-Annuity Lifestyle Investment Option is designed for those members who plan to buy an Annuity (pension), taking up to 25% of the value of their Retirement Account as a cash sum at retirement. The Trustee believes that this is an appropriate default for members that were within 5 years of their Selected Retirement Age at April 2018. This is because, based on their Selected Retirement Age they would be less than five years away from retirement and are therefore likely to have already begun planning to purchase an annuity given that this is what their previous Lifestyle Arrangement (Cautious or Adventurous) was designed for.

The Trustee has chosen the asset mix of this arrangement following advice from their professional investment advisors. This asset mix was chosen as a reasonable strategy for the average member who is targeting buying an annuity at retirement, progressively switches into a mix of assets that is aimed at protecting against significant falls in annuity purchasing power in the years immediately before retirement and match the maximum 25% cash lump sum that members are expected to take at retirement. There is no guarantee, however, that the asset mix will protect members completely.

The funds used in the Victrex Target-Annuity Lifestyle Investment Option are the same as those used in the Victrex Flexible Retirement Lifestyle Investment Option, with the addition of the LGIM Pre-Retirement Inflation Sensitive Fund. However, the Option has a different automatic switching profile, which is shown in the graph below. Please note that the switches take place automatically on a yearly basis:



Note that the LGIM Equities consists of a 25% allocation to UK equities and 75% allocation to World (ex-UK) equities.

Further details about each of the underlying funds used within the Victrex Flexible Retirement Lifestyle Investment Option and the Victrex Target-Annuity Lifestyle Investment Option are provided in the following Self Select investment options section.

Self Select investment options

Acknowledging the challenge of identifying the best solution for different groups of members, and in focusing on its key objective, the Trustee has concentrated on providing appropriate Lifestyle options to members. They have also made available a range of individual investment funds available through the Fund that have been carefully selected by the Trustee, following advice from their professional investment advisors. The funds offered give members the opportunity to be more involved in managing their pension investments and allow them to design an investment strategy to suit their needs.

Each of the investment funds available through the Fund has a different aim or target and as such can focus on different asset classes and geographical regions. Members should be aware that each asset class carries alternative risks, which will have an impact on the volatility of their Retirement Account. Members should ensure that they regularly review their investment options to ensure they continue to be appropriate for their needs.

Members can invest in one or any number of the Self Select investment funds available through the Fund and have the option to switch between funds at any time.

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the fund:

- Baillie Gifford;
- Baring Asset Management;
- Legal and General Investment Management ("LGIM").

The fund managers are authorised and regulated by the Financial Conduct Authority. The Trustee has appointed Barnett Waddingham LLP to advise on investment matters. The investment benchmarks and objectives for each investment manager are given below. Members have flexibility to select their allocation to any of these funds.

Investment manager	Fund	Benchmark	Objective
Baillie Gifford	UK and Worldwide Equity Fund (Actively managed global equity with UK bias)	60% FTSE All Share Index and 40% overseas composite equity index	To outperform by at least 1% p.a. over rolling three year periods (after costs)
	UK Equity Alpha Fund (Actively managed UK equity)	FTSE All-Share Index	Outperform after management fees by at least 2% p.a. over rolling 3 year periods
	Global Alpha Growth Fund (Actively managed global equity)	MSCI AC World Index	Outperform benchmark by at least 2% p.a. (after costs) over rolling 5 year periods
	Multi Asset Growth Fund (Actively managed multi-asset)	UK Base Rate	Outperform by 3.5% p.a. (net) over rolling 5 year periods with <10% p.a. volatility
Barings	Multi Asset Fund (Actively managed multi-asset)	RPI	Outperform benchmark (gross) over a 3 year period
	Global High Yield Credit Strategies Fund (Actively managed multi-asset debt)	3 Month GBP LIBOR	Outperform benchmark by 5% (after fees) over a full credit cycle
LGIM	UK Equity Index Fund (Passively managed UK equity)	FTSE All-Share Index	Track the benchmark to within +/- 0.25% pa for 2 out of 3 years
	World (ex UK) Equity Index (Passively managed overseas equity)	FTSE World (ex UK) Index	Track the benchmark (less withholding tax if applicable) to within +/- 0.50% pa for 2 out of 3 years
	World Emerging Markets Equity Index (Passively managed Emerging Markets equity)	FTSE Emerging Index	Track the benchmark (less withholding tax if applicable) to within +/- 1.50% pa for 2 out of 3 years
	Active Corporate Bonds – All Stocks (Actively managed corporate bonds)	Markit iBoxx Sterling Non-Gilt Index	Outperform benchmark (gross) by 0.75% pa over rolling 3 year periods
	Pre-Retirement Inflation Sensitive Fund (Actively managed Annuity-type exposure)	n/a	To provide exposure to assets that reflect the investments underlying a typical traditional fixed rate annuity product whilst attempting to provide some protection against higher or lower inflation over the period up to retirement
	Cash Fund (Actively managed cash)	7 day LIBID	Perform in line benchmark without incurring excessive risk

Further information can be obtained via My Pension Tracker (www.MyPensionTracker.co.uk), where up-to-date factsheets for all of the funds are available from April 2018. Alternatively, please contact the Fund Administrator for this information. Active members may also obtain this information via VNet.

The performance of the investment managers is monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Fee agreements

The fee arrangements with the investment managers are summarised in the Trustee's Investment Manager Fee Summary document.

Appendix 3 Environmental, Social and Governance considerations, non-financial matters, the exercise of voting rights and engagement activities and manager arrangements

Policy on financially material considerations

The Trustee invests in pooled investment vehicles. The Trustee is comfortable that the funds currently invested in by the Fund (for the DB Section and the default strategies in the DC Section) are managed in accordance with their views on financially material factors, as set out below. This position is monitored periodically.

The Trustee believes that Environmental, Social and Governance factors, including climate change, (referred to together as “ESG issues”) have the potential to have a financially material impact – that is, they have the potential to impact the value of the Fund’s investments from time-to-time. This was agreed subsequent to a training session by their investment advisor and one of their investment managers. The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes and needs to be considered alongside other implementation factors. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

The Trustee is also cognisant of the different investment timeframes that members/investments will have. Further to this, the Trustee believes that ESG issues, and particularly climate change issues will be more important for members who are further from retirement (or more generally longer-term holdings), as the financial materiality of such issues will have a greater impact over a longer timeframe.

Policy for taking into account ESG factors

A summary of the Trustee’s views for each asset class in which the Fund invests is outlined below.

Equities The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Fund’s equities.

- **Passive equities** – The Trustee accepts that the fund manager must invest in line with the specified index and, therefore, may not be able to select, retain or realise investments based on ESG related risks and opportunities. However, the Trustee believes that positive engagement on ESG factors can lead to improved risk-adjusted returns alongside better environmental, social or governance outcomes more generally. The Trustee therefore requires that the fund manager takes into account ESG considerations when engaging with companies and by exercising voting rights.
- **Active Equities** – Where equities are actively managed, the Trustee expects the fund manager to integrate ESG factors into the selection, retention, monitoring, and realisation of the stocks they hold where this is expected to have a material impact on returns. The Trustee also expects their fund manager to take into account ESG considerations when engaging with companies and by exercising voting rights.

Multi-asset funds The Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Fund’s multi-asset fund managers. The Trustee is therefore supportive of the multi-asset fund managers used by the Fund taking ESG issues into account in the investment process, where relevant. The Trustee is satisfied that the managers have suitable processes to consider ESG factors and take them into account (where relevant) in the selection, retention and realisation of the underlying investments within the funds. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching to the investments by the Fund’s multi-asset fund managers. However, the incorporation of ESG issues, the exercise of

rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process. In addition, the Trustee places greater focus on funds with the greatest amount of Fund assets invested.

Credit The Trustee believes that ESG issues are financially material to the risk-adjusted returns achieved by the Fund's credit holdings, across both private and public markets. The Trustee recognises that fixed income assets do not include voting rights, however, they support engagement with companies by their managers, particularly in markets where the manager may be responsible for a larger share of any investment. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

LDI and money markets The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short-term. It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustee believes this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

The Trustee is comfortable that, within the DB Section, the strategy as a whole takes ESG issues into account in a reasonable manner for the asset classes invested in. As noted above, the Trustee places greater focus on funds with the greatest amount of Fund assets invested.

In relation to the DC Section's default strategies, the Trustee has focussed on the phase of the lifestyle strategies before they adapt towards their end portfolios given the impact of timeframe on the financial impact of ESG issues. The Trustee will consider the viability and attractiveness of increasing the integration of ESG issues within the passive equities held as part of the next investment review. However, the Trustee remains comfortable that, at the present time, the default strategy is aligned with its view on ESG issues. This recognises that ESG issues are not the only financially material consideration (and need to be considered alongside factors such as active manager risk and cost), the fact that ESG issues are reflected in the voting and engagement of the passive equity manager, as well as the credit allocation integrating ESG issues into the selection, retention and realisation of investments where relevant.

In relation to the DC section, The Fund's investment advisor will review how ESG issues are taken into account for each of the Fund's mandates and report back their beliefs so that this can form part of the Trustee's implementation report that will be produced annually.

Non-financial matters

The Trustee does not take account of non-financial matters (such as member ethical views) within the default investment strategies of the DC Section or within the DB Section investment strategy and in terms of the selection, retention and realisation of investments. However, the Trustee will consider the viability and attractiveness of offering DC Section members a self-select option should they wish to express an ethical preference in their pension saving.

Stewardship

The Trustee acknowledges the importance of ESG and climate risk within their investment making framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustee is firmly of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The

Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks. The Trustee considers it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests on behalf of the Fund or as part of the pooled fund in which the Fund holds units.

The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Fund. The Trustee uses pooled funds, but expects the investment manager to employ the same degree of scrutiny. Should an investment manager be failing in these respects, this should be captured in the Fund's regular performance monitoring.

The Fund's investment managers are granted full discretion over whether or not to hold the equity, debt or other investment in the Sponsoring employer's business. Through their consultation with the Sponsoring Employer when setting this Statement of Investment Principles the Trustee has made the Sponsoring Employer aware of their attitude to ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

All managers are signatories to the UN Principles of Responsible Investment and the Financial Reporting Council's UK Stewardship Code (which aims to enhance the quality of engagement between investors and companies). The Trustee will consider ESG, voting and engagement issues when appointing and reviewing managers (and reviewing the investment strategy of either the DB or DC Section) to ensure that they are appropriately taken into account given the asset class involved.

As a result of investing in pooled investment vehicles, the Trustee delegates responsibility for stewardship activities attaching to the Fund's investments to their investment managers. Managers are expected to exercise voting powers with the objective of preserving and enhancing long-term shareholder value. In addition to the exercise of voting rights, managers are encouraged to engage with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks. The Trustee receives information from their investment managers on voting and engagement activities in respect of the investments where available. This is reviewed by the Trustee. Should any issues emerge in relation to how an investment manager is engaging with companies (through the Trustee's review of this reporting), the Trustee will discuss this with the manager.

Manager arrangements

Conflicts of Interest

The Fund's investment consultants, Barnett Waddingham, are independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment manager and the investee companies.

Policy on arrangements with asset managers

Prior to appointing the investment manager, the Trustee discusses the investment manager's benchmark and approach to the management of ESG and climate related risks with the Fund's investment consultant, and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns,

the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will use another manager for the mandate.

The Trustee carries out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the Fund and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on a periodic basis.

In the event that the investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager.

Time horizon for making decisions and engagement

The Trustee is mindful that the impact of ESG and climate change may have a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee has acknowledged this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to be voting and engaging on behalf of the fund's holdings and the Fund monitors this activity within the Implementation Statement in the Fund's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short term targets.

Manager performance and remuneration

The Trustee monitors the performance of their investment managers over the medium to long time periods that are predetermined and consistent with the Trustee's investment aims, beliefs and constraints.

The Fund invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. Details of the fee structures for the Fund's investment managers are contained in the Fund's Investment Manager Fee Summary document.

The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Fund's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered every three years as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

The Trustee acknowledge that portfolio turnover costs can impact on the performance their investments. Overall performance is assessed as part of the regular investment monitoring process.

During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. When underperformance is identified deviations from the expected level of turnover may be investigated with investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangements

For the open-ended pooled funds in which the Fund invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Fund's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.