Statement of Investment Principles

For the Eaton UK Pension Plan

Effective from: 14 August 2024

1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustee of the Eaton UK Pension Plan ("we, our").

It sets out our policies on various matters governing investment decisions for the Eaton UK Pension Plan ("the Plan"), which has Defined Benefit ("DB"), Defined Contribution ("DC") and Hybrid sections, all of which are covered in this SIP. The DC section consists of Additional Voluntary Contributions ("AVCs") and Money Purchase Accounts ("MPA") and the Hybrid section is in respect of Individual Member Accounts ("IMA").

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005, the Pension Regulator's guidance for defined benefit pension schemes (March 2017), and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP replaces the previous SIP dated April 2023.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place as soon as practicable after any significant change in investment and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Plan's investments, but which are not required to be included in the SIP.

2. Investment objectives

The primary objective of the **DB Section** is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we have a series of additional objectives:

- the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions, the cost of current and future benefits which the Plan provides;
- to limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the Scheme Specific Funding Requirement; and
- to minimise the long-term costs of the Plan by maximising the return on the assets whilst managing and maintaining investment risk at an appropriate level, and having regard to the other objectives.

What we determine to be an appropriate level of risk is set out in Part 2 of the SIP addendum.

Our objective for the **DC and Hybrid Sections** is to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile DC and Hybrid Sections and the variety of ways that members can draw their benefits in retirement; and
- in fulfilling this first objective, to make available to members a range of investments via pooled funds which seek to achieve real returns on members' assets while controlling the risks arising from the potential volatility of such investments.

It is for each member to decide which funds they wish to use at any time.

3. Investment strategy

With input from our advisers and in consultation with the employer, we have reviewed the investment strategy for the **DB section**, considering the objectives described in Section 2, as part of the 2022 Actuarial Valuation. Following consideration of some alternative asset classes, we agreed that the investment strategy of the Plan should be based on the allocation below.

The investment strategy for the DB Section is shown in the following table.

Asset class	Strategic allocation
UK equities	4%
Overseas equities	16%
Real Assets	10%
Matching credit	15%
Growth credit	15%
Liability driven investment ("LDI") (including collateral)	40%
Total	**100%**
Target interest rate and inflation hedging (Technical Provisions basis)	90%

It should be noted that deviations from this allocation are valid and indeed to be expected. This is in part due to the way that the LDI portfolio is considered to provide a desired approximate level of hedging of interest rate and inflation risks, and so a fixed percentage allocation is not an appropriate means by which to summarise this allocation. In addition, the need to have liquidity to respond to potential collateral requirements for the LDI portfolio will also cause deviations from the above allocations over time.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic asset allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cashflows.

There is a Cashflow Management Policy in place, which sets out an investment / disinvestment process to cover excess contributions over and above monthly expenditure or excess expenditure over and above monthly contributions.

We do not have a formal leverage management plan. The Plan has a bespoke LDI portfolio, and the investment management agreement sets out the assets and approach available to support the Plan's LDI arrangements. We review the collateral adequacy periodically to ensure that it does not fall below the prudent level highlighted in recent guidance from The Pensions Regulator.

The **Hybrid Section (IMA)** is closed to both new members and new contributions and is in respect of historic benefits that some Plan members accrued when with a previous employer which was acquired by Eaton. The benefits provided from this Section are the members' individual member accounts (IMAs) which operate on a defined contribution basis subject to an underpin of the member's Guaranteed Minimum Pension and Reference Scheme Test pension earned as a result of being contracted-out of the State pension on a final salary basis.

The Hybrid section does not have, and is not required to have, a default investment arrangement. Each member is responsible for specifying one or more funds for the investment of their account having regard to their attitude to the risks involved. We offer a lifestyle investment option which has been designed to have risk and return characteristics similar to a lifestyle targeting flexible drawdown. This lifestyle was implemented on 19 April 2021 and replaced the lifestyle option targeting annuity purchase for those members who were more than one year from their target retirement age at this date. The drawdown targeted lifestyle option is designed to protect against some of the risks described in Part 2 of the Addendum to the Statement of Investment Principles. The annuity purchase lifestyle is not available for members to select for investment, however a small number of members remain invested in this option (specifically those who were within one year of their target retirement age as at the introduction of the drawdown targeting lifestyle). The lifestyle option was designed to be in the best interests of the majority of the members based on analysis of the demographics of the membership.

In considering the investment options we have taken account of the fact that the benefits have been described to members as defined contribution benefits.

We will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

We have considered the long-term performance characteristics of various asset classes, in terms of their expected returns and the variability of those returns, in deciding on the range of investment vehicles to make available to members. The range of available funds is set out in in Part 3 of the SIP addendum.

For the **AVCs and MPAs** the Plan provides a facility for members to pay AVCs into the Plan to enhance their benefits at retirement. In addition, a number of individual MPAs were established under a predecessor scheme (Eaton UK Retirement Benefits Plan) and transferred to the Plan. The MPAs are closed to new contributions. The AVC and MPA sections do not have, and are not required to have, a default investment arrangement. Members are offered a range of standalone funds and a lifestyle investment option in which to invest their AVCs and historic MPAs. Further details are provided in Part 3 of the SIP addendum.

While the Plan is a Qualifying Scheme, the DC arrangements in the IMA, MPA and AVC Sections of the Plan are not being used as a Qualifying Scheme for automatic enrolment purposes. We have taken legal advice and have been informed that Regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 does not apply to the DC arrangements.

4. Considerations in setting the investment arrangements

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

We have considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. In 2024, we undertook a full strategy review and some long-term financial assumptions were made to assist in the consideration of some de-risking proposals for the DB Section. These included, as at 31 March 2024, that the equity portfolio will, over the long term, outperform gilts by 3.1% pa. Some of the other key assumptions for expected returns above gilts were as follows:

- Matching credit: 1.0% pa
- Growth credit: 2.0% pa
- Cash: 0% pa
- Unlisted infrastructure equity: 2.5% pa
- Dynamic LDI: 0.4%

In setting the strategy for the Plan for the DB Section we took into account:

- the Plan's investment objectives, including the target return required to meet our investment objectives;
- the Plan's cashflow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cashflows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Plan's overall level of investment risk and the balance of individual asset risks are appropriate; and
- our investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the DC and Hybrid Sections the we considered:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle investment options and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the lifestyle investment options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members;
- any other considerations which we believe are financially material over the periods until members' retirement, or any other timeframe which we believe to be appropriate; and
- our investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

We also consider any other factors we believe to be financially material over the applicable time horizons relevant to the funding of the DB and DC benefits,

including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs and understanding of the DC and Hybrid Section's membership are reflected in the design of the lifestyle investment options, and in the range of other funds made available to members.

Our policy regarding **investments in illiquid assets in the DC arrangements**, is set out below. Illiquid assets means assets that can't be easily or quickly be sold or exchanged for cash, and where assets are invested in a collective investment scheme this includes any such assets held by the collective investment scheme.

We believe that long-term net risk-adjusted investment returns may be improved by investing in illiquid assets. However, illiquid assets in DC pension schemes is a relatively new and developing area. Because of this we wish to see the further performance track record of illiquid funds available to DC schemes before we invest member assets in them. Therefore, at this time it is our policy not to invest in illiquid assets. However, with the support of our investment advisers, we intend to consider investment in illiquid assets as part of our regular reviews of the investment arrangements but we note that the context of this Plan makes this difficult.

Our key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is usually better value
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this
- climate change is a financially material systemic issue that presents risks and opportunities for the Plan over the short, medium and long term
- aligning our assets with net zero greenhouse gas emissions by 2050 where practicable is expected to help reduce the risks to the Plan from climate change
- to be effective, a net zero program needs to be consistent with climate science, with both short-term and long-term targets and a focus on real world impacts
- we believe that managers should engage with portfolio companies that have poor climate or ESG related practices, and then divest if they do not make sufficient improvements
- we are supportive of incorporating appropriate climate-related and ESG related exclusions within investment mandates, but would prefer to engage with companies that have poor ESG practices where practical
- voting and engagement are important and can create long term value which is in the best interest of Plan members and therefore we encourage managers to improve their voting and engagement practices
- collaborative investor action can help address systemic risks, for example we believe net zero alignment, if implemented well, could be an effective approach to addressing climate risk

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Section 3 of the SIP addendum.

We have signed agreements with two platform providers in respect of the DC and Hybrid Sections, who make available the range of investment options to members. There is no direct relationship between the Plan and the underlying managers of the DC and Hybrid Section investment funds.

The investment managers to whom discretion has been delegated exercise their powers to give effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

We have limited influence over the managers' investment practices because all the Plan's assets are held in pooled funds, but we encourage the Plan's managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers, where appropriate to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements. Generally, we are unlikely to terminate a mandate on short-term performance grounds alone.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

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

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Plan within the portfolios that they manage, and in considerations relating to the liquidity of investments.

For the DB Section, when appropriate, we, on the administrator's recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg infrastructure). Our policy is outlined in a separate document.

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

7. Financially material considerations and non-financial matters

We have considered how ESG considerations (including but not limited to climate change) and ethical factors should be taken into account in the selection, retention and realisation of investments since we recognise that these factors can be relevant to investment performance and believe that the market may not appropriately price these factors.

We influence the Plan's approach to ESG and other financially material factors through our investment strategy and manager selection decisions.

We expect our investment managers to take account of financially material factors (including climate change and other ESG factors). We seek to appoint managers that have the skills and processes to do this, and from time to time review how the managers are taking account of these issues in practice. Over time, we may consider both active and passive managed funds which incorporate ESG factors, as well as specialist funds that treat ESG factors as a source of investment opportunities.

Our ambition is to align our assets with net zero greenhouse gas emissions by 2050 through selecting managers, and investing in funds, with credible net zero targets.

We encourage our managers to improve their ESG practices in line with our beliefs, although acknowledge that we have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their practices where appropriate.

We will consider long-term environmental, social and economic sustainability (including climate change) when making investment decisions, as we believe that investment actions have a real-world impact which collectively affect long-term performance, and that it is a socially responsible thing to do.

We do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments. However, the line between financial and non-financial factors is not always clear and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. We keep this under review as part of our overall assessment of ESG considerations.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of the Plan's members.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG factors.

We do not monitor or engage directly with issuers or other holders of debt, equity or real assets. We expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to us from time to time, taking into account the long-term financial interests of the beneficiaries. We will seek to appoint managers that have strong stewardship policies and processes reflecting, where relevant, the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time we will review how these are implemented in practice.

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. These priorities are set out in Section 4 of the SIP Addendum.

These priorities were chosen because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore, we believe it is in its members' best interests that our managers adopt strong practices in these areas.

We review the themes periodically and update them if appropriate. We communicate these stewardship priorities to our managers and also confirm our more general expectations in relation to ESG factors, voting and engagement.

Addendum to the Statement of Investment Principles

For the Eaton UK Pension Plan

Effective from: 14 August 2024

This addendum to the Statement of Investment Principles (“SIP”) for the Eaton UK Pension Plan (the “Plan”) has been produced by the Trustee of the Plan (“we, our”). It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Plan’s investment arrangements.

Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Plan. This division is based upon our understanding of the various legal requirements placed upon us and it is our view that the division of responsibility allows for efficient operation and governance of the Plan overall with access to an appropriate level of expert advice. Our investment powers are set out within the Plan's governing documentation.

1. Trustee

Our responsibilities include:

- setting the investment strategy of the DB Section, in consultation with the employer and in conjunction with the actuarial funding strategy;
- developing a mutual understanding of investment and risk issues with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to Environmental, Social and Governance ("ESG") (including but not limited to climate change);
- setting the policy for rebalancing between asset classes and asset managers;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- appointing, monitoring, reviewing, engaging with and replacing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995;
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate;
- consulting with the employer when reviewing the SIP; and
- setting the strategies for the lifestyle investment options and reviewing the investment options for Additional Voluntary Contributions ("AVCs") , Money Purchase Agreements ("MPAs") and the Individual Member Account ("IMA") Sections.

2. Platform provider

The investment platform provider is responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing us with regular information concerning the management and performance of the assets.

3. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change, net zero alignment and other ESG considerations) as appropriate in managing the assets;
- exercising rights (including voting rights) attaching to investments and

undertaking engagement activities in respect of investments;

- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

4. Custodians

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

5. Actuary and Investment adviser

In broad terms, the actuary and investment adviser will be responsible, in respect of investment matters, as requested by us:

- for the DB Section, advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested;
- for the DB Section advising on and monitoring liability hedging and collateral management;
- for the DC and Hybrid Section, advising on a suitable fund range and lifestyle strategy for the Plan, and how material changes to legislation or within the Plan's DC and Hybrid Section's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);
- supporting us in achieving the Plan's net zero ambition, including through manager selection, monitoring and engagement;
- participating with us in reviews of this SIP; and
- supporting the Trustee on discussions with the employer.

6. Fee structures

We recognise that the provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

We have agreed Terms of Business with the Plan's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and platform providers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by us to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Plan. However, we keep the fee structures under review.

7. Performance assessment

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

It is our policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

8. Working with the sponsoring employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

As part of the 2019 actuarial valuation the sponsor agreed to provide a guarantee which was designed to cover the full insurance cost to secure the DB benefits if required. To avoid the risk of the losing the guarantee we are required to obtain the sponsor's approval to make changes to the investment strategy and SIP.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk appetite is a measure of how much risk we are willing to bear within the Plan in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which we can tolerate deviation from the Plan's long-term objectives before attainment of those objectives is seriously impaired. We aim to strike the right balance between risk appetite and risk capacity.

When assessing risk and reviewing the investment strategy, we consider a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed employer contributions;
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Plan's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

2.1. Strategic risk

This is the risk that the performance of the Plan's assets and liabilities diverges in certain financial and economic conditions. This risk is taken into account when we review and monitor investment strategy.

We will review the Plan's investment strategy at least every three years in light of the various risks faced by the Plan.

2.2. Risk of inadequate long-term returns

For the DB Section, a key objective of ours is that, over the long-term, the Plan should generate its target return so that it has adequate assets to meet its liabilities as they fall due. We therefore invest the assets of the Plan to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Plan's assets and liabilities diverge in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by us on a regular basis.

For the DC Sections, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and diversified growth funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature throughout the lifestyle investment options. To reduce the chance of a sharp deterioration in members' benefits close to retirement, we have provided members with the option of investing in a lifestyle investment option.

2.3. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect our ability to meet their investment objectives. We believe that the DB Section's assets are adequately diversified between different asset classes and within each asset

class. In addition, we have a written policy on self-investment which stipulates that no direct investment is permitted in securities issued by the employer, nor any of its subsidiary companies. The Plan may be exposed to employer related investments via its pooled fund arrangements, however given the numbers of securities held in these arrangements any exposure is likely to be minimal.

The IMA, AVC and MPA investment options provide a suitably diversified range for members to choose from. Within each fund available to members, the holdings should be adequately diversified. To achieve this, we have selected investment vehicles which, subject to their objectives, will be suitably diversified.

2.4. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we usually undertake investment manager selection exercises and receive written advice from a suitably qualified individual. We monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.5. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, CTI makes use of derivative and gilt repo contracts in the Liability Driven Investment ("LDI") arrangement to efficiently match a portion of the Plan's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.6. Liquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due, or that the Plan will become a forced seller of assets in order to meet benefit payments. We are aware of the Plan's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments and by investing in income generating assets, where appropriate.

For the DC Section, this is the risk that core financial transactions, such as investing, switching or disinvestment of members' investment options, are not processed promptly due to lack of liquidity in the investments. We manage this risk by only using pooled funds with daily dealing within the investment options and diversifying the lifestyle strategies across different types of investment.

Our policy for the IMA, AVC and MPA sections is to make available to members funds which, in normal conditions, should prove easy to buy and sell.

2.7. Environmental, social and governance risks

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

2.8. Climate related risks

Climate change is a source of risk, which is financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately and monitor how this risk is being managed in practice.

2.9. Collateral adequacy risk

The Plan is invested in leveraged LDI arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk, when requested to do so, we will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Plan's interest rate and inflation hedging could be reduced and that the Plan's funding level could suffer subsequently as a result. In order to manage this risk, we ensure that the Plan has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.10. Risk from excessive charges

Within the DC and Hybrid Sections, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. We are comfortable that the charges applicable to the Plan are in line with market practice and assesses regularly whether these represent good value for members.

2.11. Credit risk

The Plan is subject to credit risk because it invests in bonds and related assets via pooled and bespoke pooled funds. We manage exposure to credit risk by only investing in pooled and bespoke pooled funds that have a diversified exposure to different credit issuers.

2.12. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

We believe that equity risk is a rewarded investment risk, over the long term.

We consider exposure to equity risk in the context of the Plan's overall investment strategy and believes that the level of exposure to this risk is appropriate.

2.13. Currency risk

Whilst the majority of the currency exposure of the Plan's assets is to Sterling, the Plan is subject to currency risk because some of the Plan's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, we manage the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

We currently hedge around 50% of the DB Section's equity exposure to foreign currency back to Sterling.

2.14. Interest rate and inflation risk

The Plan's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bonds via pooled funds. However, the interest rate and inflation exposures of the Plan's assets hedge part of the corresponding risks associated with the Plan's liabilities.

We consider interest rate and inflation risks to be generally unrewarded investment risks. As a result, we currently aim to hedge around 90% of the DB Section's exposure to interest rate and inflation risk, by investing in leveraged LDI arrangements managed by CTI. However, the degree of hedging will be reviewed over time and may be changed. It will also fluctuate with changes in the Plan's liabilities and market movements.

The net effect of our approach to interest and inflation risk will be to reduce the volatility of the funding level, and so we believe that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.15. Risk of deterioration in investment conditions near retirement

Within the DC and Hybrid Sections, for a given amount of money the level of pension secured will depend upon investment conditions at retirement. A sharp deterioration in these conditions in the period just prior to retirement will have a substantial impact on the benefits provided. To protect against this, we have made a lifestyle investment option available for members.

2.16. Valuation risk

Some of the Plan's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets such as property and infrastructure, prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice.

We consider exposure to valuation risk in the context of the Plan's overall investment strategy and believe that the level of exposure to this risk is appropriate.

2.17. Other non-investment risks

We recognise that there are other, non-investment, risks faced by the Plan, and takes these into consideration as far as practical in setting the Plan's investment arrangements as part of their assessment of the other aspects of the Plan's Integrated Risk Management framework.

Examples include:

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

Both, investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress towards the DB Section's funding target.

By understanding, considering and monitoring the key risks that contribute to funding risk, we believe that they have appropriately addressed and are positioned to manage this general risk.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below.

Defined Benefit Section

Legal and General Investment Management

We have selected Legal and General Investment Management ("LGIM") as the investment manager for its equity assets. LGIM's benchmark for the equity portfolio is as follows:

Asset class	Benchmark allocation (%)	Benchmark index
Low Carbon UK equities	20%	Solactive L&G Low Carbon Transition UK Index
Low carbon overseas developed equities (50% of developed market exposure hedged back to pounds Sterling)	60%	10.0% Solactive L&G Low Carbon Transition North America Index 10.0% Solactive L&G Low Carbon Transition North America Index (GBP Hedged) 10.0% Solactive L&G Low Carbon Transition Europe ex UK Index 10.0% Solactive L&G Low Carbon Transition Europe ex UK Index (GBP Hedged) 6.5% Solactive L&G Low Carbon Transition Japan Index 6.5% Solactive L&G Low Carbon Transition Japan Index (GBP Hedged) 3.5% Solactive L&G Low Carbon Transition APAC ex Japan Index 3.5% Solactive L&G Low Carbon Transition APAC ex Japan Index (GBP Hedged)
Low carbon emerging market equities	20%	Solactive L&G Low Carbon Transition Emerging Markets Index

The objectives of the low carbon equity funds are to produce returns consistent with their respective index.

The UK index aims to reduce carbon intensity by 60% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues. The other indices aim to reduce carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues.

The target reduction in carbon intensity is relative to a corresponding regional market capitalisation weighted index.

Additionally, the funds will not invest in companies on LGIM's Future World Protection List.

LGIM may also disinvest from companies that are held in the index that do not meet LGIM's minimum standards on areas such as climate, governance, reputation and public policy.

Rebalancing

In normal conditions, LGIM will review the asset allocation position for the Equity Portfolio monthly and when this is outside the control ranges will rebalance back to that benchmark. From time to time, we may decide to suspend this rebalancing. The control ranges are +/-1.5% for each of the regional allocations shown in the table below.

Name of fund	Benchmark allocation (%)	Range (%)
Low Carbon Transition UK Equity Index Fund	20.0	+/-1.5
Low Carbon Transition North America Equity Index Fund	10.0	+/-1.5
Low Carbon Transition Europe (ex UK) Equity Index Fund	10.0	+/-1.5

Low Carbon Transition Japan Equity Index Fund	6.5	+/-1.5
Low Carbon Transition Asia Pacific (ex Japan) Equity Index Fund	3.5	+/-1.5
Low Carbon Transition North America Equity Index Fund (GBP Hedged)	10.0	+/-1.5
Low Carbon Transition Europe (ex UK) Equity Index Fund (GBP Hedged)	10.0	+/-1.5
Low Carbon Transition Japan Equity Index Fund (GBP Hedged)	6.5	+/-1.5
Low Carbon Transition Asia Pacific (ex Japan) Equity Index Fund (GBP Hedged)	3.5	+/-1.5
Low Carbon Emerging Markets Equity Index Fund	20.0	+/-1.5
Total	**100.0**	

BlackRock (UK) Advisors Limited

We have selected BlackRock (UK) Advisors Limited ("BlackRock") as the investment manager for its corporate bond assets.

BlackRock's benchmark for the Bond Portfolio is as follows

Asset class	Benchmark allocation (%)	Benchmark index
Corporate bonds	N/A	iBoxx £ Non-Gilts Over 15 Years Index
Buy and maintain credit	N/A	N/A

For the corporate bond fund, BlackRock's objective is to outperform the benchmark by 1% pa, over a rolling three year period.

For the buy and maintain fund, BlackRock's objective is to produce income for investors by primarily investing in a diversified portfolio of high-quality non-government bonds.

Columbia Threadneedle Investments

We have selected Columbia Threadneedle Investments ("CTI") as the Plan's liability-driven investment ("LDI") manager. The Plan is invested in an LDI Private-Sub Fund, where CTI invests in a variety of LDI instruments to provide hedging in line with the Plan's LDI benchmark and cash and fixed income instruments to provide the liquidity required to cover any future collateral calls.

J.P. Morgan Asset Management

We have selected J.P. Morgan Asset Management ("JPM") as one of the Plan's infrastructure managers. We invested £37m (~5% of the Plan's assets at 30 October 2018) in the Infrastructure Investment Fund ("IIF"). IIF's target total return to investors is 8-12% pa after management fees and expenses. The fund aims to achieve this objective predominantly through investment in global unlisted infrastructure equity.

IFM Investors

We have selected IFM Investors ("IFM") as one of the Plan's infrastructure managers. We invested £37m (~5% of the Plan's assets at 30 October 2018) in the Global Infrastructure Fund ("GIF"). The absolute return target for GIF is 10% p.a. net of all fees, ranging from 8-12% depending on the stage of the market cycle. The fund aims to achieve this objective predominantly through investment in global unlisted infrastructure equity.

Defined Contribution Section (AVC and MPA)

We have selected Standard Life ("SL") as the Plan's main AVC provider. There are a range of ten passively and actively managed funds available for members to select, including a lifestyle investment option. The relevant members are provided with clear information on the investment options and their characteristics that will allow the members to make an informed choice. The lifestyle investment option has a five year switching period from growth assets into cash.

We have reviewed the lifestyle investment option in February 2020, and on 28 September 2021 implemented a change whereby the allocation in the growth phase to the SL Global Absolute Return Strategies Fund was replaced with the BlackRock Aquila Life Market Advantage (ALMA) Fund. The arrangement was also reviewed during the Plan year on 27 June 2023.

The range of available Standard Life AVC options is as follows:

- Lifestyle investment option (detailed below);
- Standard Life Deposit and Treasury Pension Fund;
- Standard Life Annuity Targeting Pension Fund;
- Standard Life Index-linked Bond Pension Fund;
- Standard Life Corporate Bond Pension Fund;
- Standard Life Global Equity 50:50 Tracker Pension Fund;

- SL Vanguard FTSE UK All Share Index Pension Fund;
- SL BlackRock ACS World (ex UK) Equity Tracker Index Fund;
- BlackRock Aquila Life Market Advantage (ALMA) Fund.

Some members hold historic AVCs within the Standard Life Managed Pension Fund and With Profits funds. Members in the MPA and AVC section can currently make AVC contributions.

Members with MPAs can invest in the same range of Standard Life funds that are available as AVC options as set out above.

The Hybrid (IMA) Section

We have selected BlackRock to manage the funds that are available to members. The range of passively and actively managed funds and benchmarks for each fund are as follows:

Fund	Benchmark	Performance objective
BlackRock Aquila Life Global Equities (60:40) Index Fund[1]	Aquila Life (60:40) Global Equity Benchmark	The fund aims to provide returns consistent with the markets in which it invests.
LGIM Low Carbon Transition Developed Markets Equity Fund ("LCTF")	Solactive L&G Low Carbon Transition Developed Markets Index	To achieve a tracking error of within 0.6% pa relative to the benchmark.
BlackRock MSCI World Index Fund	MSCI World Net Total Return GBP	To achieve a return in line with the benchmark
BlackRock UK Equity Index Fund	FTSE All-Share Custom ESG Screened Index	To provide a return which closely tracks the benchmark.
Blackrock Aquila Life Market Advantage ("ALMA") Fund	3-month SONIA compounded in arrears[2]	To outperform the benchmark by 3.5% pa (gross of fees) over the long term (5 consecutive years).
BlackRock Aquila Life All Stocks UK Gilt Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	To achieve a tracking error of within 0.2% pa relative to the benchmark.
BlackRock Aquila Life Over 15 Years UK Gilt Index Fund[1]	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To achieve a tracking error of within 0.2% pa relative to the benchmark.
BlackRock Index Linked Gilt Index Fund[1,3]	FTSE Actuaries Over 5 Year Index Linked Gilt Index	To achieve a tracking error of within 0.2% pa relative to the benchmark.
BlackRock iShares Corporate Bond All Stocks Index Fund	iBoxx Sterling Non-Gilt All Stocks Index	To achieve a tracking error of within 0.3% pa relative to the benchmark.
BlackRock Cash Fund	7 day SONIA[5]	To match the benchmark before fees.

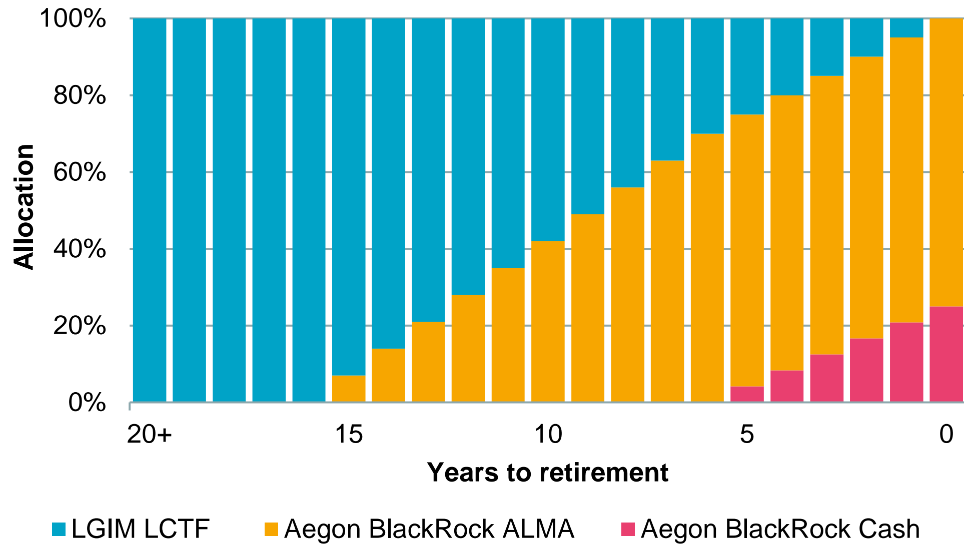
The relevant members are provided with clear information on the investment options and their characteristics that will allow the members to make an informed choice.

The IMA Section also has a lifestyle investment option which has been designed to have risk and return characteristics similar to a lifestyle targeting flexible drawdown which is summarised in the following table and chart:

[1] These funds are only available for members to invest in as part of the annuity lifestyle investment option. Only those members who were invested in this lifestyle, and within one year of their target retirement date at the date of the transition in April 2021, can remain invested in this lifestyle.

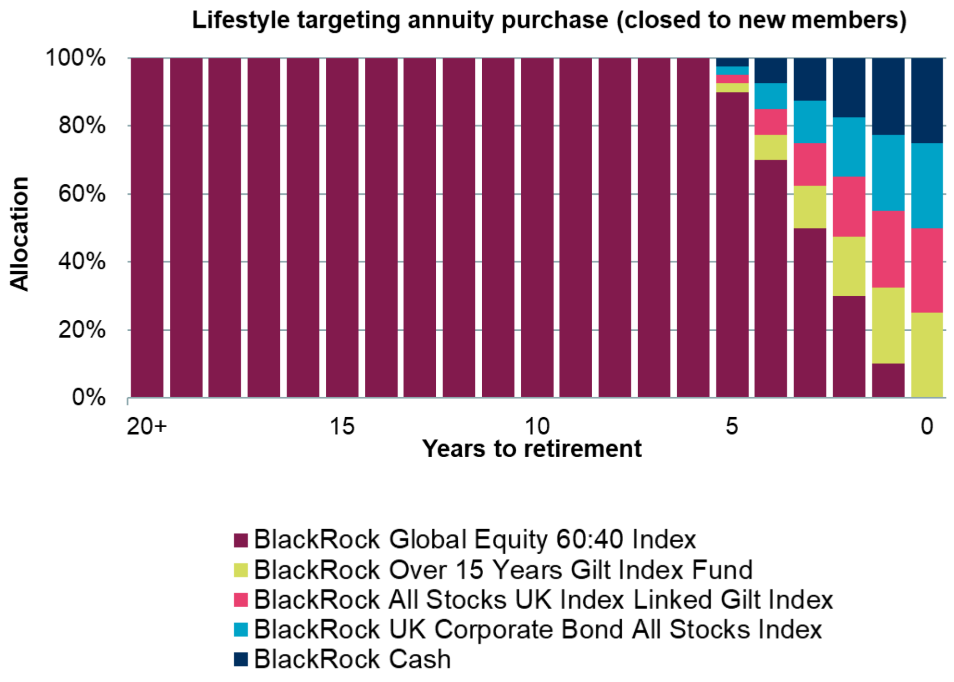
[2] Benchmark adjusted from LIBOR/LIBID to SONIA following the cessation of LIBOR. New benchmark effective from 1 October 2021 for BlackRock Cash Fund and 26 November 2021 for BlackRock ALMA.

[3]On 31 May 2023 assets in the Aegon BlackRock All Stocks UK Index Linked Gilt Index Fund were moved to the Aegon BlackRock Index-Linked Gilt Fund as the fund closed. Previous fund figures are as at 31 March 2023.



Term to retirement (years)	LGIM LCTF (%)	BlackRock ALMA (%)	BlackRock Cash Fund (%)
16+	100.0	0.0	0.0
15	93.0	7.0	0.0
14	86.0	14.0	0.0
13	79.0	21.0	0.0
12	72.0	28.0	0.0
11	65.0	35.0	0.0
10	58.0	42.0	0.0
9	51.0	49.0	0.0
8	44.0	56.0	0.0
7	37.0	63.0	0.0
6	30.0	70.0	0.0
5	25.0	70.8	4.2
4	20.0	71.7	8.3
3	15.0	72.5	12.5
2	10.0	73.3	16.7
1	5.0	74.2	20.8
0	0.0	75.0	25.0

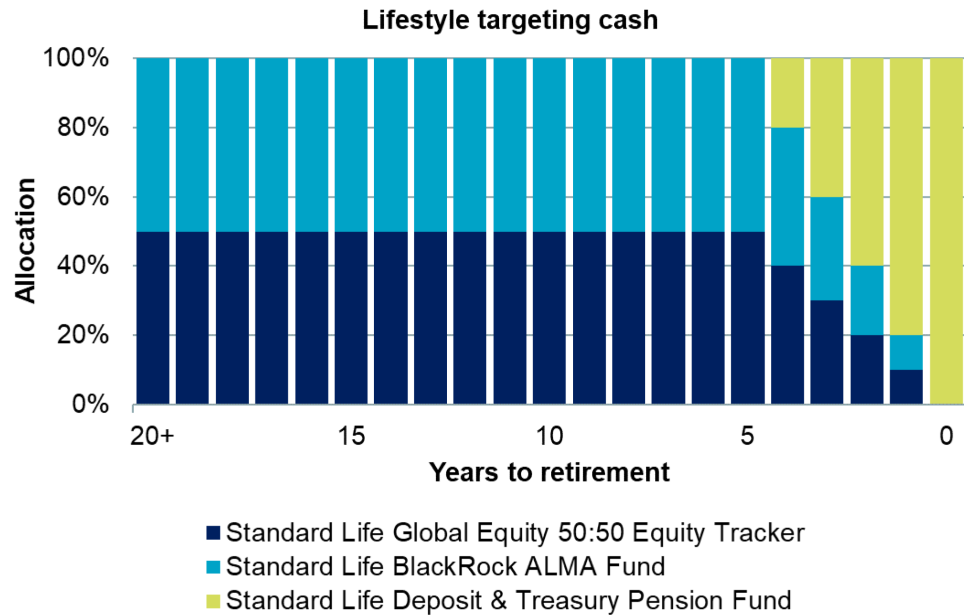
We reviewed the lifestyle investment option from January 2023 to June 2023 and the changes to this lifestyle were implemented in February 2024. The lifestyle option targeting annuity purchase, that was available prior to 19 April 2021 remains open as an option for members who were within 1 year to retirement at the time of the transition who did not elect to move to the new lifestyle, however this lifestyle is now closed to all other members. Details of the closed lifestyle investment option targeting annuity purchase at retirement is summarised in the table and chart on the following page.



Term to retirement (years)	BlackRock Global Equity 60:40 Index Fund (%)	BlackRock Over 15 years Gilt Index Fund (%)	BlackRock Index-linked Gilt Index Fund (%)	BlackRock UK Corporate Bond Index Fund (%)	BlackRock Cash Fund (%)
More than 5	100.0	0.0	0.0	0.0	0.0
5	90.0	2.5	2.5	2.5	2.5
4.5	80.0	5.0	5.0	5.0	5.0
4	70.0	7.5	7.5	7.5	7.5
3.5	60.0	10.0	10.0	10.0	10.0
3	50.0	12.5	12.5	12.5	12.5
2.5	40.0	15.0	15.0	15.0	15.0
2	30.0	17.5	17.5	17.5	17.5
1.5	20.0	20.0	20.0	20.0	20.0
1	10.0	22.5	22.5	22.5	22.5
0.5	0.0	25.0	25.0	25.0	25.0

The MPA and AVC Section

The DC Section (MPA and AVC) also has a lifestyle investment option which has been designed to be appropriate for a member taking their pension savings as cash at retirement (subject to applicable tax deductions). This is summarised in the following table and chart:



Lifestyle investment option – percentage allocations by fund

Years to retirement	Standard Life Global Equity 50:50 Equity Tracker Pension Fund (%)	Standard Life BlackRock ALMA Fund (%)	Standard Life Deposit & Treasury Pension Fund (%)
5+	50	50	0
4	40	40	20
3	30	30	40
2	20	20	60
1	10	10	80
0	0	0	100

Part 4:
Monitoring and engaging with managers on voting and engagement

This section sets out our effective system of governance ("ESOG") in relation to stewardship. This includes monitoring the voting and engagement activities that our investment managers undertake on our behalf, engaging with them regarding our expectations in relation to stewardship, and encouraging improvements in their stewardship practices. We will review this ESOG periodically, and at least triennially.

On a triennial basis, we will also undertake an own risk assessment ("ORA") which assesses how well our ESOG is working and whether any changes should be made.

Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are climate change, human rights, and business ethics.

We chose these priorities because they are market-wide areas of risk that are financially material for the investments and can be addressed by good stewardship. Therefore, the we believe it is in its members' best interests that its managers adopt strong practices in these areas.

We will write to our investment managers regularly to notify them of our stewardship priorities and remind them of our expectations of them in relation to ESG considerations.

Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes and have a preference for managers and funds with net zero targets and credible plans to meet them. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we ask questions about responsible investment, focusing on our stewardship priorities.

Manager monitoring

We receive information regularly to enable us to monitor our managers' responsible investment practices and check how effective they're being.

This information includes metrics such as our investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for our mandates. On an ad-hoc basis we consider a selection of voting and engagement examples relating to our stewardship priorities. The examples are chosen to reflect our stewardship priorities and material mandates over the course of the scheme year (although not necessarily every priority for every mandate).

Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements.

We review the information outlined above to identify any concerns, for example where the managers' actions are not aligned with our views. Where there are concerns, we typically seek further information through our investment consultants. If a concern is confirmed, we will consider what further action is appropriate/intend to take the following steps:

1. We define clearly what the issue is, the objective(s) for the engagement and the target date(s) for achieving those objective(s).
2. We contact the manager to raise the concern and set out our expectations in relation to the issue
3. We aim to agree an improvement plan with the manager with target date(s) for achieving engagement objectives
4. We review periodic progress reports as the plan is implemented. This may include inviting the manager to one of our regular meetings to discuss the issue
5. As appropriate we may seek to escalate the concern with a more senior individual at the manager

6. If our concerns are not addressed, we might reduce the allocation to that mandate or replace the manager.

We review progress on the engagements on a regular basis and agrees any next steps.

Implementation statement including most significant votes

Following the end of each Plan year, we prepare a statement which explains how we have implemented our Statement of Investment Principles and voting and engagement policies during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. We select these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- whether it relates to one of our stewardship priorities;
- the potential financial impact of the vote;
- any potential impact of the vote on our investor rights or influence;
- the size of our holding; and
- whether the vote was high-profile or controversial.