Amtico Company Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

4 September 2020

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the Amtico Company Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme 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 (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted The Amtico Company Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

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 Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustees are set out in Clause 3.2 of the Definitive Trust Deed & Rules, dated 22 December 2000, and Clause 3.3 inserted by the 2005 Deed of Amendment. This statement is consistent with those powers.

1.6. The Scheme consists of the Defined Benefit (DB) Section and the Defined Contribution (DC) Section. This statement covers both sections.

2. Choosing investments

2.1. The Trustees' policy for the DB Section is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The Trustees' policy for the DC Section is to offer a default investment arrangement for the DC Section's membership profile plus a core range of investment funds into which the members can choose to invest their contributions and contributions made by the employer. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for the role.

2.3. The day-to-day management of the both Section's assets are delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendices to this Statement (Appendix 1 for the DB Section and Appendix 2 for the DC Section). The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.4. The Trustees review the appropriateness of both Sections' investment strategies on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategies.

3. Investment objectives

Defined Benefit Section

3.1. The Trustees' main objectives for the DB Section are:

- to ensure that the Scheme 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 Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Participating Employer, the cost of benefits which the Scheme 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 Scheme by maximising the return on the assets whilst having regard to the above objectives;
- to take account of the long-term risks, including those relating to non-financial factors, when making investment decisions.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

Defined Contribution Section

3.3. The Trustees have discussed key investment objectives in light of the DC Section's membership profile as well as the constraints the Trustees face in achieving these objectives.

3.4. Within the DC Section, the Trustees are responsible for the design of the default investment option (as detailed in Appendix 2) and for choosing which funds to make available to members. Members are responsible for their own choice of investment options.

3.5. The Trustees' main investment objectives for the DC section are:

- to provide a suitable default investment option that is likely to be suitable for a typical member of the DC Section;

- 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;

- to maximize member outcomes;

- to manage the expected volatility of the returns achieved in order to control the level of volatility in the value of members' pension pots and
- to reduce the risk of the assets failing to meet projected retirement income levels.

4. Kinds of investments to be held

4.1. The DB Section is permitted to invest in a wide range of assets including equities, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives) and annuity policies.

4.2. The DC Section is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives. For members that wish to make their own investment arrangements, a range of "self-select" funds have been made available.

4.3. The Trustees monitor 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 Scheme's auditors.

5. The balance between different kinds of investments

Defined Benefit Section

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. The Trustees consider 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 Appendix 1 to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

Defined Contribution Section

5.5. Members can choose to invest in a range of funds or can elect to invest in a lifestyle strategy. Where members do not choose where their contributions, and those made on their behalf by their employer, are invested, the Trustees will invest these contributions according to the default investment strategy set out in Appendix 2.

5.6. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

5.7. The Trustees consider the merits of both active and passive management and may select different approaches for different arrangements and asset classes.

6. Risks

Defined Benefit Section

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal 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	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are 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 Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each 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 Scheme 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 Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash given the Scheme's cashflow requirements.

Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees undertake an annual review of the internal controls and processes of each of the investment managers.

Defined Contribution Section

6.2. Investment risk lies with the members themselves. However, the Trustees have considered the following risks when making available suitable investment choices:

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 to members (see the Appendix), the Trustee increases the proportion of assets that more closely match how they expect members to access their retirement savings.
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 fund range offered to members to ensure member outcomes can be maximised.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The DC Section 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 each 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 undertakes an annual review of the internal controls and processes of each of the investment managers.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position. The Trustees meet the Scheme's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are 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 Scheme accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights, engagement activities and arrangements with asset managers

9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 3.

BARNETT WADDINGHAM
beyond the expected

10. Agreement

10.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Principal Employer, the investment managers, the Scheme Actuary and the Scheme/Plan auditor upon request.

Signed:... **Date:**.....................

On behalf of the Amtico Company Pension Scheme

Signed:... **Date:**.....................

On behalf of the Amtico Company Limited

Appendix 1 Note on investment policy of the Defined Benefit Section in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been determined after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Fund	Allocation (%)
Equity portfolio	**60**
Aquila Life MSCI World Index Fund	29
Aquila Life MSCI World Index Fund Currency Hedged	31
Bond portfolio	**40**
Ascent UK Long Corporate Bond Fund	25
Liability Matching Funds Range	15
Total	**100**

Rebalancing

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

In addition, the Trustees have decided to invest any surplus Employer contributions into the LDI portfolio (which comprises the Ascent UK Long Corporate Bond Fund and the Liability Matching Funds Range) and to make any required disinvestments from the Equity portfolio. Therefore, the allocation to the Bond portfolio is expected to drift upwards over time, subject to review at the time of the next triennial actuarial valuation or sooner if required.

The Scheme rebalances the Equity Portfolio on a monthly basis, using the control ranges detailed in the table:

Fund	Benchmark (%)	Control Range (%)
Aquila Life MSCI World Index Fund	48	+/- 1.5
Aquila Life MSCI World Index Fund Currency Hedged	52	+/- 1.5

The Scheme's allocation to the LDI portfolio is not rebalanced over time (unless a re-leveraging or de-leveraging event occurs, as discussed below, or until the Trustees subsequently review the allocations, which will happen periodically).

The Scheme may from time to time hold funds in cash with BlackRock and in the event that the Liability Matching Funds Range distribute excess collateral as a result of a Liability Matching Fund re-leveraging, the proceeds will be invested in a cash fund with BlackRock. In the event that a Liability Matching Fund requires additional collateral (de-leveraging), any cash held with BlackRock would be used first; next call would be the Aquila Life MSCI World Index Funds (in line with the benchmark). The Liability Matching Funds Range themselves are the final recapitalization source on the priority list.

2. Choosing investments

The Trustees have appointed BlackRock to carry out the day-to-day investment of the Scheme. BlackRock is authorised and regulated by the Financial Conduct Authority.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments. Barnett Waddingham is remunerated on a time cost basis.

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

Fund	Benchmark	Objective
Aquila Life MSCI World Index Fund	MSCI World Index Net Total Return GBP	To track the benchmark to within 0.2% pa. gross of fees, over 3 year periods
Aquila Life MSCI World Index Fund Currency Hedged	MSCI World Index Net Total Return GBP Hedged Index	To track benchmark to within 0.2% pa gross of fees, over 3 year periods

Ascent UK Long Corporate Bond Fund	iBoxx £ Non-Gilts Over 15 Year Index	Outperform benchmark by 1% pa, gross of fees, over rolling 3 year periods
Liability Matching Funds Range	n/a	Providing interest rate and inflation exposure and take advantage of market opportunities to enhance yield

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

The Trustees have an Additional Voluntary Contribution (AVC) contract with Scottish Widows for the investment of members' AVCs. The arrangement is reviewed from time to time

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

3. Fee arrangements

The fee arrangements with the investment managers are summarised in the Trustees' Investment Manager Fee Arrangement document.

4. Investments and disinvestments

The Scheme's allocation to the LDI portfolio is not rebalanced over time although the Trustees have decided to invest any surplus Employer contributions into the LDI portfolio. Therefore, any new money is normally invested in the LDI portfolio (in line with BlackRock's mandate which is to increase the hedging of the Scheme's interest rate and inflation risk using the current Liability Matching Funds Range, while aiming for a fairly "smooth" profile of future expected asset cashflows).

Where the Principal Employer's contributions are insufficient to meet the Scheme's cashflow requirements, the Trustees may disinvest some of their investments; disinvestments would normally be taken from the Aquila Life MSCI World Index Funds (in line with the benchmark).

Appendix 2 Note on investment policy of the Defined Contribution Section in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The DC Section is a bundled arrangement that is insured and invested with Standard Life. The day-to-day management of the DC Section's assets is delegated to Standard Life and through Standard Life the Trustees can access pooled funds from a range of other investment managers as well as Standard Life's own funds.

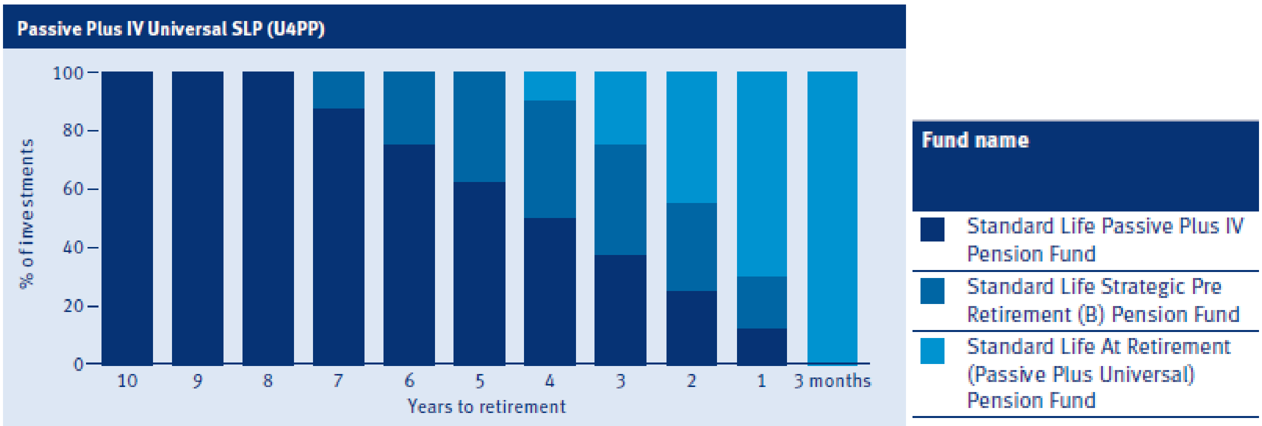
The Trustee has made available a range of funds to suit the individual needs of the Scheme's DC members. For example, a range of growth funds (including equity, property and target return) is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and cash funds are also offered for those members who are less comfortable with the likely volatility of the growth funds.

Alternatively, the Trustee has made available a range of lifestyle arrangements, whereby a member's assets are automatically invested in line with a pre-determined strategy that changes as the member gets closer to accessing their retirement savings. Emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term inflation-protected growth whilst the member is a long way off accessing their retirement savings, switching progressively to protection assets over the years preceding the member's target retirement date so as to protect the purchasing power of the retirement savings.

2. Default option

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 default investment option that will be suitable for all. However, having analysed the DC Section's membership profile, the Trustee decided that the lifestyle strategy set out below represents a suitable default investment option 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.

The default investment option is called the Passive Plus IV Universal Strategic Lifestyle Profile and is structured as a 'governed' investment solution which is designed and implemented by Standard Life. It invests in a range of blended investment funds which each hold a portfolio of underlying pooled funds. The investments held will depend upon how far away each member is from their chosen retirement age, as demonstrated below:



The default investment option aims to target reasonably good member outcomes regardless of how retirement income is eventually taken; thus the Trustee felt that it would be appropriate for the majority of the membership who may be undecided as to how and when they access their retirement savings.

As a governed solution, Standard Life is responsible for the selection and deselection of the underlying investment managers used by the default investment option as well as the ongoing relationships with the investment managers. The Trustees expect Standard Life to appoint investment managers to be used by the default investment option with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets.

3. Choosing investments

The Trustee has appointed a group of investment manager(s) to carry out the day-to-day investment of the DC Section. In terms of the lifestyle profiles and core fund range, as at the date of this statement, the underlying managers were:

- Standard Life;
- HSBC;
- Vanguard;
- Schroder;
- BlackRock

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

The full list of five lifestyle strategies that members are able to choose from is shown below:

Lifestyle option name	Description
Passive Plus IV Universal Strategic Lifestyle Profile	The **default** investment option which most members currently invest in and designed to be broadly suitable regardless of how they choose to take their pension account
Passive Plus IV Annuity target Strategic Lifestyle Profile	Designed for members intending to buy an annuity with their pension account
Passive Plus IV Lump Sum target Strategic Lifestyle Profile	Designed for members intending to take their entire pension account as a cash sum
Passive Plus IV Active Retirement (Drawdown) Strategic Lifestyle Profile	Designed for members intending to take their pension account using Flexi-Access Drawdown
Passive Plus III Universal Strategic Lifestyle Profile	Similar to the default, but designed to take less investment risk a long way from retirement

The list of core self-select funds and their investment objectives is shown below:

Fund	Objective
Standard Life Ethical Pension Fund	To provide long term growth by investing in a diversified portfolio of assets (including equities and corporate bonds) that meets the fund's ethical criteria
Standard Life Long Corporate Bond Pension Fund	To provide long term growth mainly from the reinvestment of income generated by investing predominantly in Sterling denominated corporate bonds
Standard Life Money Market Pension Fund	To maintain capital and provide returns in line with money market rates, before charges
Standard Life Property Pension Fund	To provide long term growth from a combination of income and capital growth by investing predominantly in prime quality UK properties
Standard Life Multi Asset Managed (20%-60% shares) Pension Fund	To provide long term growth whilst investing in a diversified portfolio of assets (including equities, bonds, property, cash deposits and money-market instruments) in order to reduce the risk associated with being solely invested in any one asset class
SL HSBC Islamic Global Equity Index Pension Fund	To create long term appreciation of capital through investment in a diversified portfolio of securities as defined by a relevant world index, which meets Islamic investment principles as interpreted and laid down by HSBC's Shariah Committee and provided to the Fund's Board of Directors

Fund	Objective
SL Vanguard FTSE Developed World ex UK Equity Index Pension Fund	To track the performance of the FTSE Developed World ex UK Equity Index
SL Vanguard FTSE UK All Share Index Pension Fund	To track the performance of the FTSE UK All Share Index.
SL Vanguard UK Government Bond Index Pension Fund	To provide returns consistent with the performance of a market-weighted index of UK government fixed income securities denominated in pounds sterling
SL Vanguard UK Inflation Linked Gilt Index Pension Fund	To track the performance of the Barclays UK Government Inflation-Linked Float Adjusted Bond Index
Standard Life MyFolio Managed V Pension	To provide a total return from a combination of income and capital appreciation over the longer term
SL SLI UK Smaller Companies Pension Fund	To provide long term growth by investing mainly in the shares of smaller companies listed on the UK stock market
Standard Life Asia Pacific ex Japan Equity Pension Fund	To provide long term growth and is designed for investors who are looking for exposure to equity markets in the Asia Pacific region (excluding Japan) and Australasia
SL BlackRock Aquila Connect US Equity Pension Fund	The Fund aims to achieve capital growth by tracking closely the performance of the FTSE USA Index

The performance of the investment managers for the default and core funds 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.

4. Fee arrangements

The fee arrangements with the investment managers are summarised in the Trustees' Investment Manager Fee Arrangement document.

Appendix 3 Financially material considerations, non-financially material considerations, the exercise of voting rights, engagement activities and arrangements with asset managers

1. Financially Material Considerations

1.1. For the DB Section, the Trustees consider that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be potentially financially material over the length of time during which the benefits provided by the DB Section for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of Investment Principles.

1.2. For the DC Section, the Trustees are cognisant that Scheme members have a long investment time horizon, and the Trustees have considered the risks of ESG factors over the long-term. The Trustees believe that ESG issues, and particularly climate change issues have the potential to be more important for members who are further from retirement, as the financial materiality of such issues could have a greater impact over a longer timeframe.

1.3. The Trustees have elected to invest the Scheme's assets through pooled funds. For the DB Section, the choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments. For the DC Section, the default investment option is designed and implemented by Standard Life.

1.4. The Trustees take those factors into account in the selection, retention and realisation of investments as follows, where appropriate:

- Selection of investments: Assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.
- Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.
- Realisation of investments: The Trustees will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

1.5. The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments. For the DC Section, the default investment option and range of lifestyle strategies is designed and implemented by Standard Life, and the Trustees expect Standard Life to take these factors into account when determining the structure to the strategies.

1.6. The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment managers, the Trustees will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Through their investment consultant the Trustees will request, on an annual basis, that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes. For the DC Section, the Trustees expect such reporting to be provided by Standard Life on behalf of the investment managers.

2. Non-financially material considerations

2.1. For the DB Section, the Trustees do not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

2.2. For the DC Section, the Trustees do not take account of non-financial matters (such as members' ethical views) within the default investment strategy. However, they consider that it is important to ensure that a suitable range of funds are offered to members who wish to express an ethical preference in their pension saving.

3. The exercise of voting rights

3.1. The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

3.2. The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

3.3. Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. For the DC Section, the Trustees expect such reporting to be provided by Standard Life on behalf of the investment managers. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

4. Engagement activities

4.1. The Trustees acknowledge the importance of ESG and climate risk within their investment 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.

4.2. The Trustees are 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 Trustees also recognise 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.

4.3. The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund in which the Scheme holds units.

4.4. The Trustees also consider 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 Scheme.

4.5. Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

4.6. The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business.

4.7. Through their consultation with the Principal Employer, when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on 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.

4.8. The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

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

4.10. In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

5. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment polices

5.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

5.2. 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 Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem 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 consider using another manager for the mandate.

5.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

5.4. In the event that an investment manager ceases to meet the Trustees' 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 Trustees.

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

Incentivising assessments based on medium to long term, financial and non-financial considerations

5.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise 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 Trustees acknowledge this in their investment management arrangements.

5.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe 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 Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

5.8. The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

5.9. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

5.10. The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

5.11. The Trustees believe 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.

5.12. The Trustees ask the Scheme'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 regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

5.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process. For the DC Section, the Trustees expect Standard Life to report regularly on the costs incurred in managing the DC Section's assets and this includes the costs associated with portfolio turnover. The Trustees formally review the reported portfolio turnover costs, at least annually, as part of the preparation of the Annual Governance Statement.

5.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the 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 Trustees acknowledge 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 arrangement with asset managers

5.15. For the open-ended pooled funds in which the Scheme invests, there are no predetermined agreements with the investment managers.

5.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment objectives 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.