

Statement of Investment Principles

Trustees of the Avon Cosmetics Pension Plan

September 2023

1. INTRODUCTION

This document constitutes the Statement of Investment Principles (the 'SIP') required under Section 35 of the Pensions Act 1995 (the 'Act') for the Avon Cosmetics Pension Plan ("the Plan"). It describes the investment policy, guidelines and procedures being pursued by the Trustees of the Plan which the Trustees believe are in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK (the Myners Principles). This SIP has also been drafted in a manner to reflect the requirements of The Occupational Pension Schemes (Investment) Regulations 2005.

In accordance with the Act, the Trustees confirm that, before preparing the SIP, they have obtained and considered written advice from their appointed Defined Benefit ('DB') Investment Advisers, SEI Investments (Europe) Limited ('SEI'), their appointed Defined Contribution ('DC') Investment Advisers, Willis Towers Watson, and have consulted with Avon Cosmetics Limited ("the Principal Employer"). The Plan Actuary has also been consulted to ensure that the potential returns available from the investment strategy remain consistent with the assumptions the Trustees have adopted for determination of the Plan's Statutory Funding Objective and the associated Recovery Plan to repair the funding shortfall.

The Trustees believe Willis Towers Watson and SEI to be qualified by their ability and practical experience of financial matters and to have appropriate knowledge and experience of the investment arrangements that the Plan requires.

The Trustees are responsible for the investment of the Plan's assets and arranging the administration of the Plan. Where they are required to make an investment decision, the Trustees first receive and consider advice from Willis Towers Watson and/or SEI; they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services and Markets Act 2000 ('FSMA'), the Trustees are responsible for setting a general investment policy but have delegated the day-to-day investment of the Plan's assets to the Investment Adviser.

The Investment Managers, listed in Appendix C, are authorised and regulated by the FSA and provide the expertise necessary to manage the investments of the Plan.

Declaration

The Trustees confirm that this SIP reflects the investment strategy it has implemented for the Plan. The Trustees acknowledge that it is their responsibility, with guidance from their Investment Advisers, to ensure the assets of the Plan are invested in accordance with these principles.

Signed Date

For and on behalf of the Trustees of the Avon Cosmetics Pension Plan.

2. PLAN GOVERNANCE

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider the governance structure set out in this SIP to be appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy, whilst delegating the day-to-day aspects of Defined Benefit investment management to the DB Investment Advisers and day-to-day aspects of the Defined Contribution investment management to Scottish Widows ("the Platform Provider"). The responsibilities of each of the parties involved in the Plan's governance are detailed in Appendix A.

3. INVESTMENT OBJECTIVES

3.1 Defined Benefit

The overall objective of the Plan is to meet the benefit payments promised as they fall due. The Trustees have set the following long-term objectives:

- i. The acquisition of suitable assets, having due regard to the risks set out in Section 8 of this statement, which will generate income and capital growth to pay, together with deficit repayment contributions from the Principal Employer, the benefits which the Plan provides as they fall due.
- ii. To limit the risk of the assets failing, or being assessed as failing, to meet the liabilities over the long-term having regard to the Statutory Funding Objective (further details at section 7.1).
- iii. To achieve a return on investments which, over the long term, is expected to be consistent with meeting the Statutory Funding Objective.

The Trustees aim to meet the long-term objectives via the following measures:

- i. Ensuring the strategic allocation for the Plan takes into account the liability profile and the Statutory Funding Objective.
- ii. Monitoring the Investment Adviser to ensure that it complies with the investment guidelines set for it and that there is a reasonable expectation that it can meet its performance objectives in the future.

3.2 Defined Contribution

The overall investment strategy is that the investment options (particularly the default investment option) remain appropriate as the membership of the Plan changes over time.

In respect of the DC Section of the Plan, the Trustees' objectives are:

- i. To provide members of the DC Section with a range of investment options and pooled investment funds to satisfy their differing risk appetites and retirement goals,
- ii. To offer an appropriate default investment option for those members who do not feel able to make decisions on how their DC contributions should be invested by considering the membership demographics and risk tolerances before selecting which default investment option to use, thereby ensuring it remains appropriate as the membership of the Plan changes over time,
- iii. In addition to the default option, to offer alternative lifestyle strategies that allow members to make limited investment decisions, but still be able to tailor their pension planning to suit their personal circumstances,
- iv. To offer a range of suitable funds for DC members to invest in whilst being able to mitigate the risks set out in Section 12,
- v. To monitor the fund choices to ensure they are consistent with the strategic objectives of this SIP and that performance is consistent with that expected.

4. DEFINED BENEFIT SECTION INVESTMENT STRATEGY

4.1 General Policies

The Trustees' approach to investment strategy is to allocate the assets into two pools – the Risk Management Pool and the Return Enhancement Pool. The investment objective is then translated into the strategy and assets are allocated to these two components:

- Risk Management Pool - these investments exist in the portfolio to manage risk relative to the liabilities. Assets in this pool are those which tend to mirror the liabilities by nature and/or term such as fixed interest gilts, index-linked gilts, corporate bonds and liability driven derivative overlays such as interest rate swaps. In addition, strategies may be employed to limit downside risk in the Return Enhancement Pool, particularly equity risk.
- Return Enhancement Pool - these investments exist in the portfolio to generate return relative to the liabilities without a requirement to closely track liability performance. Assets in this pool include, but are not limited to, equities, property, emerging market debt, high yield bonds, commodities, hedge funds, and other similar alternative investments.

The Trustees' investment objective determines the split of assets between these two components and within each component.

4.2 Asset Allocation

The Trustees recognise the importance of asset allocation to the overall investment returns achieved. However, given the approach to managing the investments set out in the previous section, the Trustees also recognise that the asset allocation will change as a

result of a range of factors, which include changes in market conditions changing the allocation to different asset types.

However, in recognition of the risks that asset allocation can imply, there are asset allocation controls in place. These are detailed in the Fiduciary Management Agreement between SEI and the Trustees (current objectives, guidelines and restrictions as of the date of this SIP are set out in Appendix B).

4.3 Return Objective

A return on investments is required which, over the long term, is expected to be consistent with the Trustees' goal of meeting the Statutory Funding Objective.

Where the Trustees have felt it appropriate, the Investment Adviser has been mandated to invest actively in such a way as is expected to outperform relevant benchmark indices. The performance objective of the portfolio can be found in Appendix B.

5. DEFINED BENEFIT SECTION STRATEGY IMPLEMENTATION

The Trustees employ SEI to manage the assets of the Plan through:

- Selecting appropriate Funds suitable for the Plan.
- Defining the allocations to each Fund.
- Managing a Segregated Account which has the particular purpose to manage risk, including interest rate, inflation rate and equity risk, relative to liabilities. SEI may appoint a sub-advisor to manage this account with SEI's oversight.
- Making changes and adjustments where appropriate.

The performance expectation of this process is delivery of the investment objectives set for each Fund, as this is consistent with the overall investment objectives set out earlier in the SIP.

5.1 Mandates and Performance Targets

The Trustees have received advice on the appropriateness of the Investment Managers' targets, benchmarks and risk tolerances from the Investment Adviser and believe them to be suitable to meet the Plan's investment objectives.

SEI has been mandated by the Trustees to manage the investments under its control, in a particular way, and details of these mandates are given in the agreement under which SEI is appointed by the Trustees (the "Fiduciary Management Agreement").

5.2 Fiduciary Management Agreement

The Fiduciary Management Agreement sets out the scope of SEI's duties, fees, and investment restrictions together with any other relevant matter in relation to the Plan.

SEI has been provided with a copy of this SIP and is aware that it is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

5.3 Diversification

The assets will be invested in a diverse portfolio of investments in order to reduce investment risk.

The Trustees understand the importance of diversification and, as such, the Investment Adviser is required by the Trustees to ensure the assets are properly diversified. The choice of asset classes as set out in Appendix B is designed to ensure that the Plan's investments are diversified by type and region.

The range of, and any limitation to the proportion of, the Plan's assets held in any asset class will be agreed between the Investment Adviser and the Trustees. These ranges and sets of limitations will be specified in the agreements between the DB Investment Adviser and the Trustees and may be revised from time to time where considered appropriate as circumstances change (details of the asset allocations and restrictions as at the date of this SIP are set out at Appendix B). The Trustees also have regard to the investment powers of the Trustees as defined in the Trust Deed.

5.4 Suitability

The Trustees have established a mandate with the specific aim of defining the asset management objective to be directly consistent with the liability driven objectives. As such, they consider the mandate to be suitable.

The Trustees have taken advice from the Plan's Investment Advisers to ensure that the assets held by the Plan and the proposed strategy is suitable given its liability profile, the Trustees' objectives, regulatory guidance and specifications in the Trust Deed.

5.5 Asset manager arrangements

Incentivising managers to align with the Trustees' investment strategy

SEI is incentivised to align its investment strategies with the Trustees' policies mentioned in this SIP through the terms set out in the Fiduciary Management Agreement and through the Trustees' setting investment objectives which are reviewed annually. The Trustees will monitor and assess performance against these investment objectives on a regular basis. Such review will also include how well SEI is aligned with the SIP, including in terms of ESG factors and the quality of service provided.

SEI engages third party asset managers either through the use of third-party pooled funds, through the appointment of asset managers within multi-manager pooled funds and through the appointment of asset managers to manage segregated accounts. SEI is responsible for fee arrangements with asset managers, the costs of which are borne by SEI out of the fee that SEI charge the Plan. SEI will monitor the asset managers' performance on an ongoing basis against the particular investment strategy and objectives agreed with that manager.

Where an asset manager is not performing or acting in a manner SEI feels is appropriate it may ultimately result in the termination of their mandate.

The fees paid to SEI 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 the Plan.

Medium to long term and non-financial performance

Performance in the medium to long term can be improved where asset managers (i) make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity. The Trustees have delegated this to SEI and will monitor performance against this.

As described above, where an asset manager is not performing or acting in a manner SEI feels is appropriate it may ultimately result in the termination of their mandate.

As indicated above, the fees paid to SEI and the possibility of their mandate being terminated, ensure they are aligned with the Trustees' interests in respect of medium to long term performance.

Monitoring portfolio turnover and costs

The Trustees have delegated the monitoring of the costs incurred by asset managers in the buying, selling, lending or borrowing of investments to SEI.

The Trustee recognises that portfolio turnover (being the frequency with which the assets are expected to be bought/sold) and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by SEI. However, SEI will incorporate portfolio turnover and resulting transaction costs in its advice on the Scheme's investment mandates. When the Trustees agrees a particular strategy and investment mandate, this will then set an expected level of turnover and transaction costs. The Trustees reviews and monitors the actual level of the costs and turnover against this expected level.

Duration of asset manager agreements

The agreement with the Fiduciary Manager has an indefinite term but can be terminated by the Trustees giving one month's notice. The Plan does not have any direct agreements with third party managers used by the Plan.

6. DEFINED BENEFIT SECTION MONITORING

6.1 Investment Management

Under the Fiduciary Management Agreement, the Trustees have appointed SEI to provide investment advice, portfolio management and other services from time to time, as specified in the Fiduciary Management Agreement. The Trustees will monitor performance quarterly and assess performance against SEI's objectives annually. Such review will also include

how well SEI is aligned with the SIP, including in terms of ESG factors and the quality of service provided and will also include a review of actual fees paid relative to contractual fee levels. In terms of third-party asset managers appointed by SEI as described in 5.5, SEI will monitor the managers' performance on an ongoing basis against the particular investment strategy, objectives and fee arrangements agreed with that manager. As such the third-party asset managers are not monitored directly against the requirements of the SIP.

6.2 Statement of Investment Principles (SIP)

The Trustees will review this SIP on a regular basis or following any changes to the investment strategy and modify it after consultation with the Investment Adviser and the Principal Employer. There will be no obligation to change this SIP or any adviser relationship as part of such a review.

6.3 Trustees

The Trustees maintain a record of all decisions taken, together with the rationale in each case.

7. DEFINED CONTRIBUTION SECTION INVESTMENT STRATEGY

7.1 Options

Having considered advice from their DC Investment Advisers, and also having due regard for the strategic objectives and the members of the DC Section, the Trustees have made available a number of investment options (default, lifestyles and self-select). The Trustees will ensure that each DC member's funds are invested in accordance with the investments selected by the member.

When setting the investment objective for the default investment option, the Trustees considered the needs of the membership, including how they expect members to use their funds at retirement.

7.2 Building Blocks

General principles in relation to the default, lifestyles and self-select options

- i. DC members face three key investment risks:
 - a. **Inflation risk** – the purchasing power of their investment account is not maintained,
 - b. **Pension purchase risk** – for members who buy an annuity at retirement, the value of pension benefits that can be bought in the form of an annuity at retirement by a member's fund is not maintained,
 - c. **Capital risk** – the value of the portion of the DC member's fund to be used to provide tax-free cash is not maintained (the Trustees have assumed that DC members with the choice to take part of their benefits in the form of tax-free cash will do so, to benefit from the associated tax advantages).
- ii. The importance of each risk above varies with time. Inflation risk is important throughout the whole period to retirement whereas pension purchase risk and

capital risk become significant as retirement approaches.

- iii. Of the major asset classes, equities have traditionally been used to provide the most effective means of managing inflation risk, but in a volatile way. Fixed interest and index-linked securities are most effective for managing pension purchase risk. Cash is effective at managing capital risk.
- iv. The varying nature of the risks faced by a DC member through time means that no single investment product would adequately meet their needs throughout the investing period. Therefore, suitable funds will need to be sought for effective management of the risks faced by DC members.
- v. These risks provide a framework for defining the key component fund types that the Trustees have made available to DC members in order to address these risks:
 - a. **Investment component** – This component is designed to grow assets in real terms (i.e. beat inflation),
 - b. **Pension purchase component** – This component is designed to manage the potential purchase of a pension at retirement, although the Trustees note that members are not compelled to purchase an annuity at retirement and would expect members to take suitable advice around their pension planning from a registered advisor at, or around, their planned retirement date,
 - c. **Capital protection component** – This component is designed to seek to manage the absolute value of the assets invested.

8. DEFINED CONTRIBUTION SECTION STRATEGY IMPLEMENTATION

8.1 General Principles

The Trustees have appointed the Platform Provider to provide an investment platform through which the members can access a pooled fund platform that allows them to invest in a range of active and passive funds. Full details regarding the investment funds available can be found at www.scottishwidows.co.uk/save/avon. Within the fund range offered to members there are three managers, Scottish Widows, BlackRock and Legal & General Investment Management (“the DC Investment Managers”) these are listed in Appendix C.

Scottish Widows will also act as the Plan Administrator and provide administrative services to the DC Section. The Trustees keep the appropriateness of the administration under regular review.

8.2 Fund Options

When selecting the range of investment options and pooled investment funds to be made available to DC members, the Trustees obtain advice from their DC Investment Advisers on whether any investment option or pooled investment fund is suitable (as required by the Pensions Act). The range of funds offered to members has been chosen to reflect the risks DC members face and are based upon analysis of the membership undertaken in

conjunction with their DC Investment Advisers. This exercise provided the Trustees with a sound understanding of the risk tolerances and future expectations of the Plan's membership and assisted them in designing a range of funds that adequately reflect the needs of members.

8.3 Lifestyle Options

The Trustees, having taken advice from their DC Investment Advisers, have selected four lifestyle strategies to meet the needs of members intending to take their benefits in different ways and to also ensure an adequate degree of diversification. Capital is gradually and automatically moved into funds that are less likely to experience changes in value as a member nears retirement.

8.4 Default Investment Option

The Trustees, having taken advice from their DC Investment Advisers, have decided to offer the Scottish Widows Passive Interim Lifestyle (Avon) as the Plan's default investment option as the Trustees believe this will ensure assets are invested in the best interests of DC members based on analysis of the demographics and risk profile of the Plan's membership. The availability of a default investment option to DC members does not constitute advice for any individual DC member. The Scottish Widows Passive Interim Lifestyle (Avon) is managed by Scottish Widows to provide, in its opinion, a suitable investment solution from the point at which the DC member joins until the point at which the DC member is sufficiently comfortable to make an investment decision – in particular once a DC member will have a view regarding how they might wish to manage income in retirement. In terms of asset allocation, the Scottish Widows Passive Interim Lifestyle (Avon) is designed to generate capital growth over the long term with increasing levels of capital protection as members approach retirement. Capital is gradually and automatically moved into funds that are less likely to experience changes in value from 6 years before retirement.

8.5 Diversification

The choice of investment options for DC members is designed to ensure that DC members are able to choose investments that are adequately diversified and suitable for their risk profile. The Trustees monitor the range of options regularly and at least every 12 months to ensure that they are consistent with the risk profile of DC members.

8.6 Suitability

The Trustees, having taken advice from their DC Investment Advisers, believe that the investment managers and range of funds offered through the Plan are suitable for DC members, given their different risk and return objectives.

9. DEFINED CONTRIBUTION SECTION MONITORING

9.1 Platform Provider

The Trustees will monitor the Platform Provider on a regular basis to ensure that:

- i. It is providing a suitable range of funds that meet the Trustees requirements,
- ii. It continues to offer the Trustees the flexibility required to meet the objective of the DC members and that the services offered are in-line with best practice.

9.2 DC Investment Managers

The Trustees will monitor the performance of the DC Investment Managers against the agreed performance objectives.

If the Trustees, in conjunction with their DC Investment Advisers, are not satisfied with any of the DC Investment Managers, they will require that the DC Investment Managers take such steps to satisfy them in this respect, or they will remove one or more of the DC Investment Managers and appoint a replacement(s).

9.3 Incentivising Investment Managers

Alignment between an investment manager's management of a pooled investment fund selected by the Trustees and their policies and objectives is a fundamental part of the selection process of a new pooled investment fund and its investment manager. However, as the DC Section only invests in pooled investment funds via Scottish Widows, the Trustees cannot directly influence or incentivise each fund's investment manager to align their management of their fund with the Trustees' own policies and objectives as set out in this statement.

The Trustees will therefore seek to ensure that the investment objectives and guidelines of the pooled investment funds that are made available to DC members are consistent with their own policies and objectives. As part of this, the Trustees will seek to understand each fund's investment manager's approach to sustainable investment (including engagement).

The Trustees are responsible for monitoring the pooled investment funds and their respective investment managers. As part of this, the Trustees will regularly provide each fund's investment manager with the most recent version of this statement to ensure the investment manager is aware of the Trustee's expectations regarding how the DC Section's assets are being managed.

Should the Trustees' monitoring processes reveal that a pooled investment fund's objectives and guidelines, or the investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with this statement, the Trustees will try and engage with the investment manager to the extent possible to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible, the Trustees may look to replace the pooled investment fund.

Duration of investment manager appointments

The Trustees generally invests with a focus on long-term outcomes and do not look to change the pooled investment funds on a frequent basis (although they could be replaced in a shorter timeframe due to significant changes).

Accordingly, through Scottish Widows, the Trustees select pooled investment funds and the fund's investment manager with an expectation of a long-term partnership, which encourages active ownership of the DC Section's assets. For most of the DC Section's

pooled investment funds, the Trustees expect the fund's investment manager to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. For any of the pooled investment funds, should the Trustees' monitoring processes reveal that an investment manager's decision-making or engagement falls short of these expectations, the Trustees will try and engage with the investment manager to the extent possible to understand why and how this can be resolved. If this is not possible, the Trustees may look to replace the pooled investment fund.

When assessing a pooled investment fund and its investment manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to replace a pooled investment fund based purely on short term performance. However, a pooled investment fund could be replaced within a shorter timeframe due to other factors, such as a significant change in its investment

9.4 Charges and Costs

The DC Investment Managers are paid a fee expressed as a percentage of assets managed, in line with normal market practice, for a given scope of services, which includes consideration of long-term factors and engagement.

The Trustees review the charges and costs incurred in managing the DC Section's assets on a regular basis, which includes the costs associated with portfolio turnover (transaction costs). In assessing the level of the portfolio turnover costs for a particular pooled investment fund, the Trustees will have regard to the portfolio turnover costs for other equivalent pooled investment funds.

9.5 Advisers

The Trustees will monitor the advice given by their DC Investment Advisers on a regular basis.

10. OTHER ISSUES

10.1 Defined Benefit Statutory Funding Objective

The Trustees will obtain and consider proper advice on the question of whether the defined benefit investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet the Statutory Funding Objective. The funding position is reviewed periodically by the Plan Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Plan Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the Statutory Funding Objective.

10.2 Stewardship and Engagement

The Plan's investments are achieved via pooled investment funds, in which the Plan's investments are pooled with those of other investors. Therefore, the exercise of the

Trustees' rights and duties, including its voting rights and engagement activities, concerning the companies in which it invests, and other relevant persons is delegated to and directly carried out by the investment managers.

For the purpose of voting and engagement SEI, the investment manager of the Defined Benefit Section of the Plan, has pooled their stock and bond holdings with other investors and employed a specialist ESG provider for voting and engagement services. The service also includes voting by the specialist ESG provider on behalf of the funds at shareholder meetings to ensure that companies respond to the expectations of shareholders as well as other stakeholders. SEI is expected to have an interest in ensuring that corporate management act in the long-term interests of shareholders or bondholders and hence will, where appropriate and possible, engage with management on ESG considerations. SEI will report on voting and engagement activity to the Trustees on a periodic basis together with their adherence to the UK Stewardship Code. The Trustees will review their policy in respect of the Defined Benefit Section and such reports on a regular basis and hold SEI accountable for the exercise of voting rights and engagement.

10.3 Environmental, Social and Governance Issues

The Trustees are of the view that financially material considerations, include (but are not limited to) environmental, social and governance (ESG) considerations. This includes the impact of climate change. Mitigating risk and capturing investment opportunities driven by the integration of ESG issues may have a material impact on investment returns.

As the Plan's assets are invested in pooled funds, the Trustees cannot directly take account of financially material considerations in the selection, retention and realisation of investments. However, the Trustees expect the appointed investment managers to take account of all such considerations when making decisions on investments for the funds. This includes ESG considerations (including but not limited to climate change) which are financially material.

The Investment Managers will keep the Trustees up to date with their latest position on ESG factors.

The Trustees have not made explicit allowance for the long-term risks of climate change in their investment strategy. As noted above, the Investment Managers are expected to take account of all financially material factors in the selection of investments which applies to both Sections of the Plan and, in particular, the DC Section's default investment option.

The Trustees' key objective is to provide a source of savings to members and their families to be used in retirement. The Trustees do not currently take into account non-financially materially considerations, such as the specific views of individual members. Should members demand a specific ethical investment option for the DC Section, the Trustees will give this due consideration.

10.4 Liquidity

The assets are held in pooled funds and in a segregated account, most of which can be realised easily if the Trustees so require.

10.5 Custody

The Trustees have appointed SEI as the custodian of the defined benefit Funds managed by SEI. SEI uses the back-office services of its associate, SEI Private Trust Company (“SPTC”). SPTC acts as agent for SEI’s associate, SEI Global Nominee Limited who holds the client assets of SEI.

In respect of the Segregated Account, SEI has appointed Brown Brothers Harriman Trustee (Ireland) Limited as sub-custodian to operate an account for the benefit of the Plan.

Custodians used by Scottish Widows for the DC Section of the Plan depend on the underlying DC Investment Managers used. Details of these custodians can be provided on request by Scottish Widows.

10.6 Use of Derivatives

Derivatives or other financial instruments may be used to hedge the defined benefit liability risks (principally interest rate, inflation and longevity risks) or other risks (e.g. equity or currency risks).

At any given time, a minimum level of assets of sufficient liquidity and quality will be held to ensure the Plan is able to satisfy collateral or margin calls which may arise as a result of the derivatives positions it holds.

10.7 Borrowing

The Trustees do not intend to borrow or allow borrowing on behalf of the Plan.

10.8 Conflicts of Interest

The Trustees will ensure that any conflicts of interest are managed at all times in the best interests of the Plan. Furthermore, in their oversight of the DB Investment Advisers, the Trustees will ensure that there are no conflicts of interests between SEI’s role as DB Investment Advisers (detailed in Appendix A) and SEI’s investment management business.

11. DEFINED BENEFIT SECTION RISKS

11.1 The Trustees recognise there are a number of risks involved with the investment of the DB Section’s assets. The Trustees intend to adopt an investment strategy where the value of assets and liabilities are broadly aligned.

The management of investment risk is a function of the asset allocation and diversification strategies, and implementation of that strategy is delegated to the DB Investment Managers.

The Trustees will monitor and review the DB Investment Managers’ performance on a regular basis. The responsibilities of the Trustees, their Investment Advisers and the Plan Actuary are set out in Appendix A.

11.2 Risk Factors

Investment Adviser risk

This is measured by the expected deviation of the prospective return, as set out in the DB Investment Advisers' strategic asset allocation.

Managed by monitoring the deviation of returns from the strategic objectives as agreed with the DB Investment Advisers.

Cashflow risk

The risk of a shortfall of liquid assets relative to the immediate liabilities. The Trustees and their DB Investment Advisers will manage the Plan's cash flows taking into account the timing of future payments and may borrow over the short-term in order to minimise the probability that this occurs.

Financial mismatching risk

The risk of a significant difference in the sensitivity of asset and liability values to changes in financial factors, in particular inflation and interest rates. The Trustees will control these risks by monitoring their key characteristics and setting appropriate tolerances.

Demographic risk

Demographic factors include the uncertainty surrounding mortality projections such as future improvements in mortality experience. The Trustees recognise that there is currently no readily tradable instrument to hedge this type of risk and that this risk may not be fully mitigated. The Trustees will measure liabilities using mortality assumptions recommended by the Plan Actuary.

Manager risk

The failure by the DB Investment Manager to achieve the rate of investment return assumed by the Trustees. This issue has been considered by the Trustees on the initial appointment of the Investment Manager and thereafter will be considered as part of the investment review procedures the Trustees has put in place.

Concentration risk

The risk that the performance of any single asset class or single investment that constituted a significant proportion of the assets would disproportionately influence the Trustees ability to meet the objectives. The Trustees have set diversification guidelines for the DB Investment Manager to mitigate this risk.

Credit Risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Trustees limit the risk by restricting the Plan's exposure to investments with a high credit risk and by ensuring that credit risk is well diversified across a number of counterparties.

Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. This comprises three types of risk:

- **Interest rate and inflation risk.** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates or inflation rates. In setting the investment strategy the Trustees have

taken account of the interest rate and inflation sensitivity of the liabilities and then determined the extent to which it is appropriate and possible for these sensitivities to be matched by the assets, given the overall objective of the Plan, The Trustees will monitor the performance of the assets relative to the liabilities with particular regard to the impact of interest rate and inflation rates.

- **Currency risk.** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trustees limit the risk by ensuring that only a proportion of the Plan's assets are invested in assets that are denominated in currencies other than in the currency of the liabilities unless the currency risk is hedged.
- **Other price risk.** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of other market changes (other than those arising from interest rate, inflation and currency risk) whether those changes are specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Trustees seek to reduce the impact of price risk through investing in a diverse portfolio of asset classes with due consideration to the correlation of the value of different asset classes to each other in different market conditions. The Trustees also seeks to avoid investing in asset classes where the price risk is unrewarded.

Transition risk

The risk of incurring inappropriate costs in relation to the transition of assets from one investment manager to another or the movement of assets between different pooled funds. The Trustees will mitigate this risk by ensuring they are informed of any costs before they occur and by monitoring the actual cost against that expected.

Custody risk

The Trustees will assess and consider the actions of the custodian of the Plan's assets, SEI Investments (Europe) Limited, at the outset and on an ongoing basis to mitigate the risk of misappropriation of assets, delivery that is not in accordance with the instructions, unauthorised use of assets for the benefits of other customers of the custodian, inadequate segregation of customer assets, failure to collect income, recover tax or respond to corporate events and custodian default.

The Custodian and the sub-custodian ring fence the Plan's assets from its own assets and those of its other clients.

Derivative risk

Where derivatives are used by the Plan, the Plan will have additional risk with the counterparty to that derivative. These risks will be managed through the use of collateral arrangements

12. DEFINED CONTRIBUTION SECTION RISKS

12.1 General

The Trustees recognise that DC members face risks. Some of these have been outlined in section 7. Further risks to DC members include:

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- i. **Communication risk** – that communication to DC members leads to wrong decisions being made. This is addressed through the Trustees receiving advice from the DC Investment Advisers and regular monitoring and updates, where appropriate, of DC member communications.
- ii. **Inappropriate DC member decision** – addressed through communication to DC members and the recommendation that DC members seek independent financial advice.

These measures do not render the investment policy free of risk. Rather, the measures endeavor to balance the need for risk control and the need for assets which are likely to achieve the required performance target. The Trustees continue to monitor these risks.

Appendix A - Responsibilities

Trustees

The Trustees of the Plan are responsible for, amongst other things:

- i. Determining the investment objectives of the Plan and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Plan.
- iii. Reviewing regularly the content of this SIP and modifying it if deemed appropriate, in consultation with the Investment Advisers.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial (for DB assets) or investment review, in consultation with the Investment Advisers.
- v. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, by way of meetings and written reports.
- vi. Assessing the ongoing effectiveness of the Investment Advisers.
- vii. Consulting with the Principal Employer when reviewing investment policy issues.
- viii. Monitoring compliance of the investment arrangements with this SIP on an ongoing basis.
- ix. Advising the Investment Advisers of any changes to Plan benefits and significant changes in membership.
- x. Proper accounting and the preparation of the annual report and accounts.

Defined Benefit Investment Committee

The Trustees have ultimate responsibility for decision making on investment matters. However, an investment committee handles the majority of investment matters in relation to the defined benefit investment policy and makes recommendations to the Trustees where decisions are required to be taken by the Trustees.

The Defined Benefit Investment Committee will be responsible for:

- Reviewing quarterly the investment reports provided by the Investment Adviser, the performance achieved by the Investment Adviser and any material changes reported by the Investment Adviser in relation to their investment process and strategy, and meeting with the Investment Adviser at least half yearly.
- Monitoring the compliance of the Investment Adviser with the relevant investment and strategic guidelines.
- Making recommendations to the Trustees, as and when the Committee deem appropriate, on changes to the investment strategy or any other matters which are considered appropriate.

Investment Advisers

The Investment Advisers will be responsible for, amongst other things:

- i. Participating with the Trustees in reviews of this SIP.
- ii. Advising the Trustees how any changes within the Plan's benefits, membership and funding position (Defined Benefit only) may affect the manner in which the assets should be invested.
- iii. Advising the Trustees of any changes in the Plan's Investment Managers that could affect the interests of the Plan. Reasons for change may include investment performance, personnel issues, corporate issues or other issues that would cause termination of the manager to be deemed prudent.
- iv. Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Plan.
- v. Undertaking reviews of the Plan's investment arrangements including reviews of the asset allocation policy for Defined Benefit assets, default strategy for Defined Contribution assets and current funds the Plan is invested in, as appropriate.
- vi. Informing the Trustees immediately of:
 - Any breach of this SIP that has come to their attention.
 - Any serious breach of internal operating procedures.
 - Any material changes in the knowledge and experience of those involved in managing the Plan's investments.
 - Any breach of investment restrictions agreed between the Trustees and the Investment Managers from time to time.

The following only apply to the Plan's Defined Benefit Investment Adviser:

- vii. At their discretion, but within any guidelines given by the Trustees, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective.
- viii. Providing the Trustees with sufficient information each quarter to facilitate the review of its activities, including:
 - A report of the strategy followed during the quarter.
 - The rationale behind past and future strategy.
 - A full valuation of the assets and a performance summary.

Plan Actuary

The Plan Actuary will be responsible for, amongst other things:

- i. Liaising with the Investment Adviser on the suitability of the Plan's Defined Benefit investment strategy.
- ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.

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- iii. Commenting on the appropriateness of the Defined Benefit investment strategy relative to the liabilities of the Plan at the triennial valuations.
- iv. Advising the Trustees and the Investment Managers of any changes to contribution levels and funding level of the Defined Benefit liabilities.

Custodian

The Custodian will be responsible for, amongst other things:

- i. Safe-keeping and administration of all the directly held assets.
- ii. Collecting income from assets and transferring it to the Trustees.
- iii. Processing all tax reclaims in a timely manner.
- iv. Reconciling records of assets.

Platform provider

The Platform Provider will be responsible for, amongst other things:

- i. To provide a wide range of high-quality investment options and to consider the inclusion of additional funds at the request of the Trustees, having taken advice from the Advisers;
- ii. To conduct and maintain a due diligence process on each of the funds included on its platform.

Appendix B

Defined Benefit Investment Objectives, Guidelines & Restrictions

The current asset allocation of the Plan managed by SEI is set out below and is accurate as at the date of this SIP (subject to change over time). The investment objective for the portfolio, is to provide adequate funding to meet the Plan's underlying members' rights in line with the SIP and meet the Statutory Funding Objective whilst reducing the level of funding level volatility. The Trustee may reduce exposure to equities over time as suitable "de-risking" opportunities present themselves subject to market conditions and not incurring additional contributions from the Principal Employer.

The target asset allocation for different parts of the Plan's portfolio is shown in the table below:

	Target Allocation
Return Enhancement	38%
Equities	11%
Liquid Alternatives	2%
Multi Asset Credit	25%
Risk Management	62%
Segregated U.K. Credit Fixed Interest	22%
Segregated LDI Account (including Derivatives)	40%

Appendix C

Plan Actuary:

Willis Towers Watson

Investment Adviser:

Willis Towers Watson (DC)

SEI Investments (Europe) Limited (DB)

Investment Managers:

SEI Investments (Europe) Limited (DB)

Scottish Widows (DC)

BlackRock (DC)

Legal and General Investment Management (DC)

DC Platform Provider:

Scottish Widows