CHAIR'S STATEMENT
YEAR ENDED 31 DECEMBER 2018

Chairman Statement

Annual Chair's Statement for the Invesco Pension Scheme

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") requires the Trustee to prepare an annual statement regarding governance, which should be included in the annual report.

This statement covers the period from 1 January 2018 to 31 December 2018 (the Scheme year). It is signed on behalf of the Trustee by the Chair. It covers the governance and fee disclosures in relation to the investment of funds made available to the money purchase arrangement. It does not cover any other part of the Scheme.

The Trustee is aware of the additional regulatory guidance which sets out the need for details, regarding the investment management fees and the transaction charges, on a publicly accessible website. This will be hosted on the principal employer's website.

The statement covers the following five areas:

- The Default Arrangement,
- Core financial transactions,
- Charges and transaction costs paid by members,
- Value for member and
- Trustee knowledge and understanding.

1. The Default Arrangement

The latest Statement of Investment Principles ("SIP") for the Scheme, including the Default Arrangement is included further on in the report. The Trustee reviewed the SIP in 2018 and a draft new version is with the Company for comment.

The default investment strategy is reviewed on a periodic basis (with the next review being due later in 2019) and the performance of the strategy is reviewed on a quarterly basis, and, any amendments to the default will be reflected in changes to the SIP. In future, the default strategy and performance will be reviewed at least every year or more frequently if there is a significant change in the Scheme's membership in the interim.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the money purchase arrangements are processed promptly and accurately.

The Trustee has appointed Aegon to provide administration services. The administrator has confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately.

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Chairman Statement (continued)

The Scheme has a service level agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core transactions relating to the Scheme are processed promptly and accurately. The key processes adopted by the administrator to help them meet SLA are as follows:

- The Trustee receives regular reports to help them monitor SLA's are being met.
- The Administrator has processes in place to meet SLA's; for example, daily monitoring of bank accounts dedicated contribution processing team; at least two people involved with checking investment and banking transactions.
- The Trustee receives quarterly reports about the Administrator's performance, and based on information provided by the Administrator, are satisfied that over the period covered by this statement
  - There have been no material administration errors in relation to processing core financial transitions; and
  - The majority of core financial transactions have been processed within a reasonable timeframe. There was one member affected by a BlackRock pricing error, but the impact was minimal.

The SLA's for the core financial transactions are:

Work type	SLA criteria
Change beneficiary	95% in 5 days
Change personal details	95% in 3 days
Change target retirement age	95% in 3 days
Information request	95% in 5 days
Member general details request	95% in 3 days
Possible claim identified	95% in 1 day
Retirement	95% in 5 days
Scheme leaver	95% in 8 days
Statement request	100% in 5 days
Switch request	100% in 1 day
Transfer out	95% in 5 days

In light of the above, the Trustee considers that the requirements for processing core financial transactions have been met.

3. Member Borne Charges and Transaction costs

The Trustee is required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. Members do not pay an annual fund management charge for any funds managed by Invesco.

The stated charges also include investment administration costs - since members incur these costs.

The Trustee is also required to disclose the level of any transaction costs. These are incurred when the Scheme's investment managers buy and sell assets within funds but are exclusive of any costs incurred when members invest in and switch between funds.

The charges and transaction costs have been supplied by Aegon as the Scheme's investment platform provider. When preparing this section of the statement the Trustee has taken account of statutory guidance.

Chairman Statement (continued)

3.1. Default arrangement

The default arrangement has been set up on a lifestyle basis, which means that members' assets are automatically moved between different investment funds as they approach their retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to retirement, and in which fund they are invested.

For the period covered by this Statement, annual charges and transaction costs are set out in the table below.

Default arrangement and transaction costs

Years to retirement	TER	Transaction costs
20 or more years to retirement	0.16%	0.18%
15 years to retirement	0.16%	0.18%
10 years to retirement	0.16%	018%
5 years to retirement	0.16%	0.18%
At retirement	0.21%	0.03%

3.2. Self-select options

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

Self-select fund charges and transaction costs

Manager – Fund name	TER	Transaction costs
Aegon BlackRock Consensus Index	0.22%	0.01%
Aegon BlackRock 70/30 Global Equity Index	0.21%	0.03%
Aegon BlackRock World (ex UK) Equity Index	0.21%	0.00%
Aegon BlackRock UK Equity Index	0.21%	0.05%
Aegon BlackRock Index Linked Gilt	**0.31%**	**-0.05% (ie negative)**
Aegon BlackRock Diversified Growth	0.63%	0.38%
Aegon BlackRock Property	1.03%	Not provided*
Invesco Cash	**0.18%**	**0.02%**
Invesco Global Equity Growth	0.18%	0.05%
Invesco Global Equity Income	0.20%	0.19%
Invesco Global Equity (ex UK)	0.18%	0.05%
Invesco Growth Managed	0.18%	0.10%
Invesco UK Equity	0.18%	0.05%
Invesco UK Corporate Bond	**0.18%**	**0.09%**
Invesco Long Gilt	**0.18%**	**0.00%**
Invesco Growth	**0.16%**	**0.18%**
Invesco Balanced Risk	0.18%	0.19%
Invesco Global Targeted Return	0.18%	0.37%

* As at the time of preparing this Statement, the platform provider was unable to provide transaction costs for this fund due to some of the underlying investment managers not providing transaction cost data. The Trustee will continue to work with the platform provider to obtain transaction costs for this fund for inclusion in future statements.

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Chairman Statement (continued)

3.3. Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

• The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees (ie the TER).
• The transaction cost figures used in the illustration are those provided by the Scheme's platform provider, subject to a floor of zero (ie the illustration does not assume a negative cost over the long term). As transaction costs have not been provided for the Aegon BlackRock Property Fund these are not included in the projection for this fund.
• The illustration is shown for the default option, the Lifestyle option, as well as five funds from the Scheme's self-select fund range. The five self-select funds shown in the illustration are:

- the fund with the highest before costs expected return – this is the Aegon BlackRock 70/30 Global Equity Index
- the fund with the lowest before costs expected return – this is the Invesco Cash Fund
- the fund with highest annual member borne costs – this is the Aegon BlackRock UK Property Fund
- the fund with lowest annual member borne costs – this is the Invesco Growth Fund
- the fund with the most members invested – this is the Invesco Growth Managed Fund

Projected pension pot in today's money

	Default options		Aegon BlackRock 70/30 Global Equity Index		Invesco Cash Fund		Aegon BlackRock UK Property Fund		Invesco Growth Fund		Invesco Global Managed Fund	
Years Invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£43,700	£43,600	£44,100	£44,000	£42,400	£42,300	£43,600	£43,200	£43,700	£43,600	£44,000	£43,900
3	£45,100	£44,700	£46,300	£46,000	£41,100	£40,800	£45,000	£43,600	£45,100	£44,700	£46,100	£45,800
5	£46,600	£45,800	£48,700	£48,100	£39,900	£39,500	£46,300	£44,000	£46,600	£45,800	£48,400	£47,700
10	£50,500	£48,900	£55,00	£53,800	£37,000	£36,200	£49,900	£45,100	£50,500	£48,900	£54,400	£52,900
15	£54,800	£52,100	£62,300	£60,100	£34,300	£33,200	£53,800	£46,100	£54,800	£52,100	£61,200	£58,700
20	£59,400	£55,600	£70,500	£67,200	£31,800	£30,500	£57,900	£47,200	£59,400	£55,600	£68,800	£65,200
25	£64,400	£59,200	£79,700	£75,200	£29,500	£28,000	£62,400	£48,300	£64,400	£59,200	£77,400	£72,300
30	£69,800	£63,200	£90,200	£84,100	£27,300	£25,700	£67,200	£49,500	£69,800	£63,200	£87,100	£80,200
35	£75,700	£67,300	£102,000	£94,000	£25,300	£23,600	£72,400	£50,700	£75,700	£67,300	£97,900	£89,000
40	£78,300	£68,600	£115,500	£105,000	£23,500	£21,700	£78,000	£51,900	£82,100	£71,800	£110,000	£98,700

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Inflation is assumed to be 2.5% each year.
- The starting pot size used is £43,000.
- No further contributions are assumed to be paid.
- The projected annual returns used are as follows.
- Default option: 1.6% above inflation.

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Chairman Statement (continued)

4. Trustees' Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for the Trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The comments in this section relate to the Trustee as a body in dealing with the whole Scheme and are not restricted to the DC section.

The Trustee considers it has met the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) during the Scheme year.

The Trustee has measures in place to secure compliance with the legal and regulator requirements regarding its knowledge and understanding including investment matters, pension and trust law. This, together with the advice available, enables the Trustee to properly exercise its functions and run the Scheme effectively.

All of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit and new Trustee Directors are required to complete this within six months of taking up office. The Trustee has in place a training policy. There is a regular TKU review, and a Trustee training log is maintained.

The Trustee consider that they are conversant with the Scheme documentation (e.g. Trust Deed and Rules, Statement of Investment Principles) and were required to demonstrate a working knowledge of these throughout the Scheme year and as documented by the meeting minutes.

Should any changes be required to the Scheme documentation in the future, the Trustee will liaise with their legal advisers to ensure that their understanding of these documents is maintained.

The combined knowledge and understanding of the Trustee Directors, together with the advice which is available to them, has enabled them to excise their functions properly because on the basis of the combined knowledge and understanding of the Trustee Directors as complemented by the specialist legal, actuarial and investment advice that they receive, the Trustee Directors are confident that they meet the statutory TKU requirements and are well placed to properly exercise their functions as Trustee Directors. The professional advisers attend Trustee meetings where required.

Signed on behalf of the Trustee of the Invesco Pension Scheme.

Name / Position ---------------------------Chair of Trustee

Date of signing 6 June 2019

Statement of Investment Principles for the Invesco Pension Scheme

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Invesco Pension Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Invesco Pension Scheme ("the Scheme"), a Scheme with Defined Benefit ("DB") and Defined Contribution ("DC") sections. This SIP replaces the previous SIP dated June 2014.

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

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members in respect of the DC Section, and at least once every three years.

- Appendix 1 sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- Appendix 2 sets out the Trustee policy towards risk appetite, capacity, measurement and management.
- The Scheme's investment manager arrangements are set out separately in the Scheme's Investment Manager Arrangements Policy.

2. Investment objectives

The primary objective for the DB Section is to ensure that the Scheme should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has a series of additional objectives. These are as follows:

- that the return on the Scheme's assets is maximised while keeping investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.
- the Scheme's funding position (ie the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding and has given due weight to those considered most relevant to the Scheme.

In particular, the Trustee has taken into account the funding requirements detailed in the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The Trustee's primary objectives for the DC Section are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy for the DB and DC Sections, taking into account the objectives described in Section 2 above.

3.1 DB Investment strategy

The result of the review was that the Trustee agreed that the investment strategy of the Scheme should be based on the strategic benchmark allocation and rebalancing ranges set out below.

Asset class	Strategic Benchmark (%)	Min (%)	Max (%)
UK Equity	17	12	22
Global Equity	17	12	22
Diversified Growth Funds ("DGF")	30	12.5	37.5
Return seeking	**64**	**59**	**71**
Corporate Bonds	14	12	18
Liability Driven Investments ("LDI")[1]	18	13	23
Cash	4	1.5	6.5
Matching	**36**	**31**	**41**

As part of the investment strategy review, the discretionary tactical asset allocation overlay implemented by Invesco Asset Management has been removed. Hence there is no longer significant flexibility to tactically allocate between asset classes. The "drift" ranges are designed to strike an appropriate balance in the frequency of rebalancing; too wide and the allocation could move too far from the strategy, too narrow and the Scheme risks incurring excessive trading costs. If a drift limit is breached the asset class should be rebalanced back to its central strategic benchmark weight.

3.2 De-risking framework

The Scheme undertook a de-risking exercise in May 2018 to rebalance and reduce the allocation to growth assets, due to the improved funding position. The Trustee is considering introducing a long-term strategy which is expected to include a de-risking framework to progressively de-risk the investment

[1] The LDI allocation is intended to partially hedge the Scheme's liabilities and, therefore, the LDI allocation may exceed its rebalancing ranges. This does not form part of the automatic rebalancing arrangements.

strategy as and when market conditions allow for this to be done without the need for increased Company contributions. Further detail will be updated here once the long-term strategy and de-risking framework have been agreed.

3.3 Cashflow policy

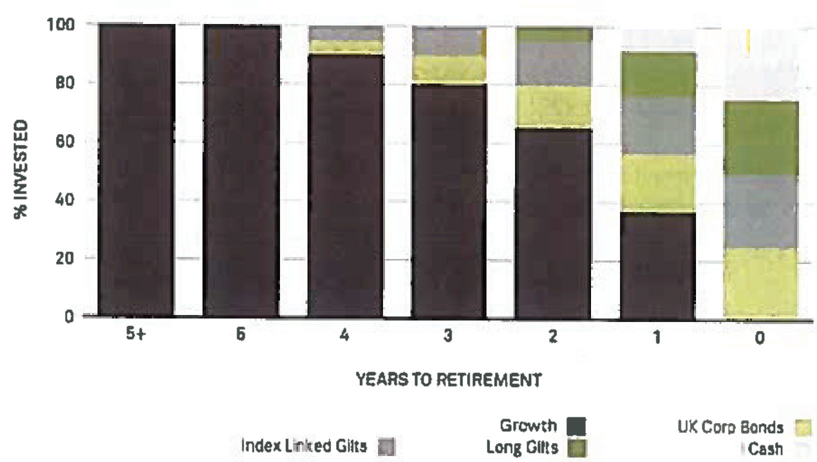
To manage future cash flow requirements, a £3m cash buffer will be maintained within the Trustee bank account, with a cap of £6m. Additionally, £12.5m has been invested in a Money Market fund as an additional cash buffer to cover potential, significant unexpected cash flow requirements arising from transfer out payments and the potential for a collateral call from the Scheme's LDI manager. The level of cash to be used as a buffer will be monitored on a regular basis.

3.4 DC Investment arrangements

For the DC Section, the Trustee has provided two investment approaches to members; a lifestyle option or a self-select option.

In the lifestyle option, it automatically combines investments in proportions that vary according to the time to retirement age. The aim of this strategy is to beat the potentially damaging effects of inflation on the value of pension savings by investing in growth assets in the earlier years. The chart below tracks the gradual shift towards more defensive assets as members approach retirement age.

LIFESTYLE OPTION



In the self-select option, the Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 4.0% pa. The other key assumptions for expected returns above gilts are as follows:

In setting the strategy for the DB Section the Trustee took into account:

- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class within each strategy, both across and within asset classes;
- the need for appropriate diversification between different asset classes; and
- the views of the sponsoring Employer, including an assessment of the strength of the covenant of the sponsoring Employer;
- the Scheme's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find net of fees and costs; however the Trustee believes the Employer to be a large, strong and successful active manager with a suitable range of funds made available to the Scheme free of charge;
- responsible investment in well governed companies and engaging as long-term owners can reduce risk over time and may positively impact on returns;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and

- costs have a significant impact on long-term performance.

In determining the investment arrangements for the DC Section the Trustee took into account:

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

The Trustee's key investment beliefs and understanding of the Scheme's membership are reflected in the design of the default and other lifestyle options, and in the range of other funds made available to members.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out separately in the Scheme's Investment Manager Arrangements policy.

In respect of the DC Section, the Trustee has entered into a contract with a platform provider, who makes available the range of investment options to members. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

The Trustee has signed agreements with the DB Section investment managers, and a platform provider in respect of the DC Section, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

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

The Trustee has limited direct influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

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

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as appropriate. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Where relevant a manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover 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 the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of Investments

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

For the DB Section, when appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings. The Trustee has established a 'cash buffer' to be used for short-term liquidity needs. The Scheme's administrator will request funds from this cash buffer as required, and return any surplus from the bank account to the cash buffer if necessary. Any excess is then reinvested by Invesco Asset Management in line with the portfolio target weights.

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

7. Environmental, social, governance and ethical considerations

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members, and since it recognises that these factors can be relevant to investment performance.

The Trustee cannot usually directly influence investment managers' policies on ESG and ethical factors where assets are held in pooled funds; due to the collective nature of these investments, but it encourages and challenges its managers to improve their practices where appropriate. The Trustee considers it necessary to act in the best financial interests of Scheme members and, therefore, it expects the investment managers to take account of financially material considerations (including climate change and other ESG considerations), considering the nature and time horizon of the investments. The Trustee seeks to appoint managers that have appropriate skills and processes to do this by undertaking investment due diligence which, with the help of its advisers, includes assessing the manager's ESG policy at the time of appointment. From time to time the Trustee reviews how its managers are taking account of financially material considerations (including climate change and other ESG considerations) in practice. The Trustee has invited specialists from the Invesco Asset Management ESG team to attend Trustee meetings when necessary in order to better understand the manager's arrangements and allow opportunity to ask questions about the ESG policies.

The Trustee's primary objective is to maximise the investment return of the assets and to protect the funding level, as noted in Section 2 above. The Trustee recognises that non-financial factors (ie matters relating to ethical or other views of members and beneficiaries, rather than considerations of financial risk and return) will vary between individual Scheme members and, in some cases, may conflict with the primary objective of the Trustee. As such, the Trustee believes that non-financial factors should not necessarily be the primary focus when making investment decisions such as the selection, retention and realisation of investments. However, the Trustee believes that, in many cases, issues considered to be non-financial will, over time, be sufficiently addressed by incorporating financially material ESG considerations into the managers' investment processes due to the efficient nature of investment markets.

Within the DC Section, the Trustee expects the investment managers on the DC platform made available for members to invest in to incorporate ESG into the investment process of the funds. The Trustee is currently reviewing the structure of the Scheme's DC arrangements.

8. Exercise of ownership rights

The Trustee has examined how rights, including voting rights, attached to investments should be exercised. The Trustee recognises their responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, protect and enhance the long-term value of investments.

The Trustee cannot usually directly influence the manager's policies on the exercise of ownership rights where assets are held in pooled funds, this is due to the collective nature of these investments. The Trustee understands that ownership rights will be exercised by the investment managers in line with the managers' general policies on stewardship, which reflect the recommendations of the UK Stewardship Code issued by the Financial Reporting Council where relevant, and which are provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

SIP signed for and on behalf of the Trustee of the Scheme:

Signed: ____________________

Investment governance, responsibilities, decision-making and fees

In broad terms, the Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon them, and its view that the division of responsibility allows for efficient operation and governance of the Scheme overall. The Trustee's investment powers are set out within the Scheme's governing documentation.

1. Trustee

The Trustee is responsible in respect of investment matters for:

- setting the investment strategy, in consultation with the employers;
- developing a mutual understanding of investment and risk issues with the employer;
- reviewing the investment policy as part of any review of the investment strategy taking into account financially material considerations as appropriate with the assistance of its advisers;
- setting the policy for rebalancing between asset classes;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

The investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation.
- providing the Trustee with regular information concerning the management and performance of their respective portfolios;
- taking account of financially material considerations as appropriate when managing the portfolios of assets; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios will be responsible for the safekeeping and reconciliation of the Scheme's directly held investments, settling transactions and administering income and tax payments.

3. Investment adviser

The Investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- for the DB Section, advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- for the DC Section, advising on a suitable fund range and default strategy for the Scheme, and how material changes to legislation or within the Scheme's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of investment management, dealing, custodial and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's actuarial and investment advisers, under which charges are calculated on a fixed fee and/or "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. For both the DB Section and the DC Section, Invesco Asset Management offers a range of its funds on a zero-fee basis. Other non-Invesco funds are offered on rates believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

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

6. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

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

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

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

Following implementation of the Scheme's current investment strategy, as at 31 August 2018 the Scheme's 1 year 95% Value at Risk was £86.6m. This means that there is a 1 in 20 chance that the Scheme's funding position will worsen by £86.6m or more over a one year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

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

In the DC Section, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default option a "lifestyle" strategy.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's DB assets and DC default strategy are adequately diversified between different asset classes and within each asset class and the DC options provide a suitably diversified range for members to choose from, outlined in section 3. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Liquidity/marketability risk

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

For the DC Section, this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these ESG risks as part of their investment process of the funds (to the extent it's applicable) on the Trustee's behalf and from time to time reviews how these risks are being managed in practice.

2.6. Collateral adequacy risk

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

2.7. Risk from excessive charges

Within the DC Section, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the Scheme are in line with or better than market practice and assess regularly whether these represent good value for members.

2.8. Credit risk

This is 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 Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invests in bonds that are classified as "investment grade".

2.9. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate.

2.10. Interest rate and inflation risk

The DB Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and interest rate swaps. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

As a result, the Trustee partially hedges the Scheme's exposure to interest rate risk and inflation risk by investing in a mixture of bonds as well as leveraged LDI arrangements managed by Insight. The Trustee also has a plan to increase the hedging over time as the Scheme's funding level improves.

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

2.11. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples for the DB Section include:

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

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

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