

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 August 2019.

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
Buy & Maintain 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.

In May 2020, the Scheme agreed to switch its corporate bond holdings to a buy and maintain credit strategy. This switch further de-risked the Scheme as it provides more diversification benefits (exposure to global investment grade corporate bonds, as opposed to only UK). The combination of a short dated and a long dated fund means that the duration more closely matches the liability profile of the Scheme, which can be built upon as the Scheme continues to de-risk.

3.3 Cashflow policy

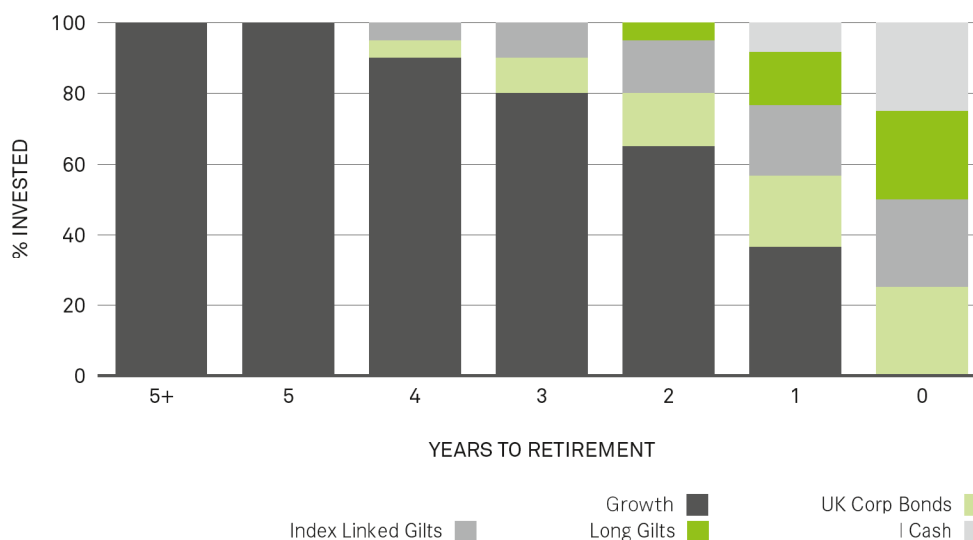
To manage future cash flow requirements, a £3m cash buffer will be maintained within the Trustee bank account, with a cap of £6m. Additionally, £12.5m has been invested in a Money Market fund as an additional cash buffer to cover potential, significant unexpected cash flow requirements arising from transfer 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 to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- 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

3718774 investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

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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. The duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. 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

3718774 stewardship practices, including monitoring and engaging with investee companies, protect and enhance the long-term value of investments.

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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: _____

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;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- taking account of financially material considerations as appropriate when managing the portfolios of assets; and

3718774 ■ having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so. **Appendix 1 (cont)**

Page 10 of 15 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

3718774 of its decision-making and investment governance processes and will decide how this may then be reported to members. **Appendix 1 (cont)**

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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.

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.

When deciding on the current investment strategy, the Trustee believed the level of risk as calculated by LCP 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

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. Equity risk

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

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustees considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

2.10. 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.

2.11. 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.

2.12. Counterparty risk

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

In particular, Liability Driven Investing makes use of derivative and gilt repo contracts and this fund is used by the Trustee to efficiently match a portion of the Scheme's liabilities.

Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.13. 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.