Statement of Investment Principles for the Royal Opera House Pension Scheme September 2023

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Royal Opera House Pension Scheme ("the Trustee") on various matters governing decisions about the investments of the Royal Opera House Pension Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believe 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 have 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 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's policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Scheme's investment manager arrangements.
- **Appendix 4** sets out the Trustee's approach to monitoring and engaging with managers on voting and engagement.

2. Investment objectives

The primary objective 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 additional objectives. These are as follows:

- that 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.
- that by 31 January 2037, the Scheme should be fully funded on a low dependency basis, of gilts + 0.5%.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, last reviewed the investment strategy in June 2023, taking into account the objectives described in Section 2 above.

The Trustee's previous approach had been that the Scheme's investment strategy should be linearly de-risked between 2015 and 2030 to a "destination portfolio" (agreed with the Company) where this portfolio was to be invested 60% in matching assets (leveraged LDI funds, government bonds and cash) and 40% in return-seeking assets (absolute return funds and multi-asset credit).

However, in light of the significant improvement in the Scheme's funding position, (including on a Technical Provisions basis), resulting from a material increase in bond yields, the Trustee decided to accelerate its de-risking of the Scheme.

Following a series of discussions and investment reviews, the Trustee agreed that the Scheme's investment strategy should be based on the allocation below.

Asset class	Strategic allocation
Equities	10%
Long lease property	6%
Multi-asset credit	15%
Infrastructure	14%
Asset-backed securities	8%
Short-dated credit	5%
Leveraged LDI and cash	42%
Total	**100%**

The Trustee seeks to hedge around 80% of the Scheme's liabilities on a Technical Provisions basis through the leveraged LDI and cash allocation while investing other Scheme assets in a broad mix of non-LDI investments.

The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur the Trustee will consider with its advisers whether it is appropriate to rebalance the assets taking into account factors such as market conditions and anticipated future cash flows.

It is the Trustee's policy to consider, on a regular basis, whether it may be appropriate to further de-risk the Scheme's investment strategy, depending upon how its asset and liability profile develop.

Given the Scheme's allocation to leveraged LDI funds, the Trustee has a leverage management plan in place which sets out the assets directly available to support the Scheme's LDI arrangements and the approach that it expects to take should it be necessary to sell other assets to support the LDI arrangements.

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 assumptions made by the Trustee in determining the investment arrangements are as follows:

Return assumptions

Asset class or investment	Expected return over gilts (% pa)
Money market cash	0.0
Fixed interest gilts	0.0
Index-linked gilts	0.0
Equities	3.8
Long lease property	2.3
Multi-asset credit	2.7
Infrastructure	3.2
Asset backed securities	2.1
Short-dated credit	1.8
Dynamic LDI	0.4

In setting the strategy the Trustee took into account:

- the Scheme's investment objectives, including the target returns required to meet those investment objectives;
- 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;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate;
- 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;
- the best interests of all members and beneficiaries; and

- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

Some of the Trustee' key investment beliefs, which influenced the setting of the investment arrangements, are as follows.

- 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 do not have an expected reward 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;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions;
- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term;
- voting and engagement are important and can create long term value which is in the best interests of Scheme members and therefore we encourage managers to improve their voting and engagement practices; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its 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 in Appendix 3.

The Trustee has signed agreements with the investment managers 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 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 influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages the Scheme's managers to improve their practices within the parameters of the fund they are managing.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines and restrictions of 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 (or where this is not appropriate to explain why). 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 available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. 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 their investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

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.

When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for reimbursing the employer for benefit payments and other outgoings paid on its behalf and informs the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property and infrastructure). In general, the Trustee's policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation, and also receive income from some of the portfolios where appropriate.

7. Financially material considerations and non-financial matters

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, taking into account the time horizon of the Scheme and its members.

The Trustee influences the Scheme's approach to ESG and other financially material factors through investment strategy and manager selection decisions. The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time-to-time reviews how its managers are taking account of these issues in practice.

The Trustee encourages its managers to improve their ESG practices, although acknowledges that having limited influence over managers' investment practices where assets are held in pooled funds and the parameter of some pooled funds may limit the scope for significant incorporation of ESG factors.

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

8. Voting and engagement

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attached to investments, protect and enhance the long-term value of investments and is in the best interests of members.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code 2020 issued by the Financial Reporting Council and from time-to-time reviews how these are implemented in practice.

The Trustee has delegated to its investment managers the exercise of rights attached to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. The Trustee expects the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of the Scheme's investments are held through managers or pooled funds the Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis. The Trustee seeks to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with its expectations.

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee reviews the themes regularly and update them if appropriate. The Trustee communicates these stewardship priorities to its managers as appropriate.

If the Trustee's monitoring identifies any areas of concern, it may engage with the relevant manager to encourage improvements.

Produced by the Trustee of the Royal Opera House Pension Scheme

Investment governance, responsibilities, decision-making and fees

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 it, 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.

Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- setting investment policies, including those relating to financially material factors such as those relating to ESG considerations (including but not limited to climate change) as well as the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- appointing, monitoring, reviewing and 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 Pensions Act 1995 (as amended) (the Act);
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- 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;
- reviewing the content of this SIP from time-to-time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

Investment managers

In broad terms, 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;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;

- exercising rights (including voting rights) attached to investments and undertaking engagement activities in respect of investments;

- providing the Trustee with regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken; and

- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

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

Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- 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;

- advising on and monitoring liability hedging and collateral management;

- 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

- assisting the Trustee in reviews of this SIP.

Fee structures

The Trustee recognises that the provision of investment management 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 work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

For JP Morgan Chase Bank, the custodian fees consist of a fixed fee, plus a charge in respect of each transaction. The fee rates are believed to be consistent with the custodian's general terms for similar 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.

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. See Section 5 of the SIP. 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.

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 employers 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 its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustees aims 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 30 June 2023, the Scheme's 1 year 95% Value at Risk was c.£3.7m. This means that there is a 1 in 20 chance that the Scheme's funding position will worsen by £3.7m or more over a one-year period, when compared with the expected position in one year's time. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, and the Scheme's objectives.

The Trustee believes that level of risk of the Scheme's current investment strategy is appropriate given the Trustee's and Employers' 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

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.

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 assets are adequately diversified between different asset classes and within each asset class. 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 professional advice and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis and receives ongoing professional investment advice as to their suitability to ensure they remain appropriate for their selected mandate.

2.4. 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, Columbia Threadneedle Investments ("CTI") makes use within its Pooled Dynamic LDI range of derivative and gilt repos contracts and these funds are used by the Trustee to match efficiently 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.

2.5. Illiquidity/marketability risk

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 appropriately. First, by maintaining an appropriate degree of liquidity across the Scheme's investments; second, by investing in income generating assets, where appropriate and third; by having an arrangement in place with the employer which allows Scheme payments up to a certain level (currently £1m) to be met by the employer before these are repaid.

2.6. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, 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 risks appropriately on the Scheme's behalf and from time to time reviews how these risks are being managed in practice.

2.7. Climate-related risks

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

2.8. 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 liquid assets which can be readily realised by the LDI manager, so that cash can be accessed by the LDI manager at short notice.

As part of managing this risk, the Trustee periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

The Trustee has also given consideration to what further measures could be taken should the assets held with CTI to support the LDI arrangements prove insufficient, for example, raising additional money from other [Scheme] assets and/or sourcing money from the employer in the short term].

2.9. Credit risk

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual 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 where the managers undertake rigorous analysis of the credit worthiness of the bonds invested in.

2.10. 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 Trustee 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.

2.11. 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.

Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure where available.

2.12. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds / interest rate swaps, via pooled funds. 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 and inflation risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge around 80% of the Scheme's exposure to interest rate risk and inflation risk, by investing in a mixture of bonds as well as leveraged LDI arrangements. This level of hedging will be increased over time as part of the Scheme's long-term de-risking plan.

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.

2.13. Valuation risk

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

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

The Trustee considers exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

2.14. 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 the assessment of the other aspects of the Scheme's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the 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 it has appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Details of the investment managers, their objectives, investment guidelines and custody arrangements are set out below.

1. The return-seeking portfolio

1.1. Schroders – equity and property portfolio

The Trustee has selected Schroder Investment Management Limited ("Schroders") as the investment provider for the Scheme's equity and property portfolio (the Trustee is in the process of divesting the property portfolio). The assets manged by Schroders are outlined below. There is no formal overall benchmark for Schroders. Its aim is to outperform the index benchmark for each of the of the underlying in-house funds in which the Scheme invests.

Asset class	Index
UK	FTSE All-Share
Overseas:	
North America	FTSE All World North America
Europe ex-UK	FTSE World Europe ex-UK
Japan	FTSE All World Japan
Pacific ex-Japan	FTSE All World Developed Asia Pacific ex-Japan
Property	HSBC/APUT All Balanced Funds Weighted Average
Cash	LIBID 7 Day

A maximum of 5.0% of the Scheme's assets held with Schroders may be invested in non-benchmark assets. The custody and safekeeping of the assets managed by Schroders are provided by JP Morgan Chase Bank.

The Schroders funds are all open-ended and not listed on any exchange. Schroders' equity and cash investments have daily liquidity, whereas the property fund deals monthly.

The Scheme first invested with Schroders on 28 June 2005.

1.2. M&G – multi asset credit

The Trustee has selected M&G Investments ("M&G") as the investment provider of the Scheme's multi asset credit portfolio. The investment is wholly in the M&G Alpha Opportunities Fund. The objective of the M&G Alpha Opportunities Fund is to provide an absolute return of 1-month SONIA + 3% to 5% pa, gross of fees over the medium term. The fund is priced monthly, is unlisted and open-ended.

The Scheme first invested with M&G in the Alpha Opportunities Fund on 3 March 2014.

1.3. M&G – long-lease property

The Trustee has selected M&G as the investment provider of the Scheme's long-lease property portfolio. The investment is held wholly in the M&G Secured Property Income Fund. The objective of the M&G Secured Property Income Fund is to provide long-dated, inflation-linked income from high quality tenants, secured by prime UK real estate. M&G anticipates forward looking returns of 7-9% pa over the medium to long term net of fees.

The fund is priced monthly, is unlisted and open-ended.

The Scheme first invested in the M&G Secured Property Income Fund on 1 August 2022.

1.4. Aegon – asset-backed securities

The Trustee has selected Aegon Asset Management ("Aegon") as the investment provider of the Scheme's asset-backed securities portfolio. The investment is held wholly in the Aegon European ABS Fund GBP Hedged. The objective of the Aegon European ABS Fund GBP Hedged is to provide long term capital growth.

The fund is priced daily, is unlisted and open-ended.

The Scheme first invested in the Aegon European ABS Fund GBP Hedged on 7 September 2022.

1.5. J.P. Morgan – infrastructure

The Trustee has selected J.P. Morgan Asset Management ("J.P. Morgan") as the investment provider of the Scheme's infrastructure portfolio. The investment is held wholly in the J.P. Morgan Infrastructure Investments Fund. the objective of the J.P. Morgan Infrastructure Investments Fund is to achieve returns of 8-12% pa over rolling five-to-seven-year periods net of fees, with a distribution yield of 5-7% pa (assuming a constant foreign exchange rate and excluding the impact of any currency hedging).

The fund is priced quarterly, is unlisted and open-ended.

The Scheme first invested in the J.P. Morgan Infrastructure Investments Fund on 3 January 2023.

2. The matching portfolio

2.1. CTI – dynamic LDI portfolio

The Trustee has selected Columbia Threadneedle Investments ("CTI") (formerly "BMO") as the investment manager for the Scheme's dynamic LDI portfolio and money market holdings.

Within the dynamic LDI portfolio, the Scheme currently invests in the Real Dynamic LDI Fund and the Nominal Dynamic LDI Fund. CTI's stated objective for the Real and Nominal Dynamic LDI Funds is to provide a hedge against changes in the value of a set of benchmark cash flows representing the profile of a "typical" pension scheme. CTI will use different instruments (swaps and gilts) based on the relative attractiveness of each.

The Scheme first invested with CTI on 26 March 2015.

2.2. CTI – short-dated credit and money market fund

The Scheme's liquid collateral assets are held in the CTI Sterling Liquidity Fund, a money market cash fund that sits alongside the LDI funds to provide collateral in the event of a capital call being made on the leveraged LDI funds. The objective of this cash fund is to provide a vehicle that will maintain high levels of liquidity and generate returns in line with money market rates.

As part of the Scheme's collateral arrangements the Trustee also has access to the CTI short-dated credit fund. The objective of this fund is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets. The fund does not have a formal benchmark however similar to the CTI Sterling Liquidity Fund, the fund will maintain high levels of liquidity.

Both CTI funds are dealt daily, unlisted and open-ended.

3. Additional Voluntary Contributions

Additional Voluntary Contributions ("AVCs") are invested in separate arrangements with The Standard Life Assurance Company and The Equitable Life Assurance Society (whose business is due to be sold to Reliance Life) although the Trustee does not allow members to make further contributions to the latter fund provider.

Monitoring and engaging with managers on voting and engagement

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

Once required to do so, on a regular basis, typically once a year, the Trustee will also undertake an own risk assessment ("ORA") which assesses how well our ESOG is working and whether any changes should be made.

1.1. Stewardship priorities

The Trustee has selected some priority themes to provide a focus for the Scheme's monitoring of investment managers' voting and engagement activities. The Trustee will review them regularly and update them if appropriate. The Trustee's current priorities are biodiversity loss, diversity, equity and inclusion and business ethics.

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

The Trustee will write to the Scheme's investment managers regularly to notify them of our stewardship priorities and remind them of the Trustee's expectations of them in relation to responsible investment.

1.2. Manager selection

The Trustee seeks to appoint investment managers that have strong responsible investment skills and processes. The Trustee prefers investment managers who are signatories to the Principles for Responsible Investment, UK Stewardship Code and Net Zero Asset Managers Initiative.

When selecting new managers, the Trustee considers the investment consultant's assessment of potential managers' capabilities in this area. If meeting prospective managers, the Trustee usually asks questions about responsible investment, focusing on our stewardship priorities.

1.3. Manager monitoring

The Trustee receives information regularly to enable monitoring of the Scheme's managers' responsible investment practices and check how effective they're being.

This information includes metrics such as the investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for our mandates.

1.4. Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, the Trustee expects most managers will have areas where they could improve. The Trustee therefore aims to have an ongoing dialogue with the Scheme's managers to clarify expectations and encourage improvements.

1.5. Implementation statement including most significant votes

Following the end of each Scheme year, the Trustee prepares a statement which explains how the Scheme's voting and engagement policies have been implemented during the year. This is published it online for members to read.

In the statement, the Trustee describes how the Scheme's managers have voted on the Scheme's behalf during the year, including the most significant votes cast. The Trustee selects these votes from a set of significant votes compiled by the investment consultant from those provided by the Scheme's managers. In doing so, the Trustee has regard to:

- whether it relates to a stewardship priorities;
- the potential financial impact of the vote; and
- the size of the Scheme's holding.