

**THE SLAUGHTER AND MAY PENSION SCHEME – FINAL SALARY SCHEME (the
“Scheme”) -
STATEMENT OF INVESTMENT PRINCIPLES**

A. GENERAL PRINCIPLES

1. Purpose

This statement sets out the principles governing decisions about the investment of the assets of the Scheme. It has been prepared by the Scheme Trustee (the **Trustee**) to comply with section 35 of the Pensions Act 1995 (the **Pensions Act**) (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005) and the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015).

2. Investment Advice

The Trustee has obtained and considered written advice from Aon Solutions UK Limited and Aon Investments Limited (collectively “**Aon**”), the Scheme’s actuaries and investment advisers respectively, on the investment strategy, the fund managers, the insurance contracts, the insurance companies and the fund managers appointed by the insurance companies. Aon have confirmed to the Trustee that they have the knowledge and experience required under section 36(6) of the Pensions Act to provide this advice. They operate under an agreement to provide a full service designed to ensure that the Trustee is fully briefed both to take the decisions it takes itself and to monitor those that it delegates. Aon are paid an agreed annual fee which includes all manager monitoring services. Other projects are paid on a time cost basis which enables the Trustee to select those services which it requires.

3. Consultation

The Trustee has consulted Slaughter and May (the **Firm**), as representative of the participating employers, on the content of this statement.

4. Investment Powers

The Trustee’s powers of investment are set out in the Trust Deed and Rules of the Scheme (as amended). They are subject to the restrictions contained in Clause 5 of the Trust Deed. This statement is consistent with those powers. Neither this statement nor the Trust Deed (save in certain respects listed in Clause 5.6 - Power to enter into any lawful transaction) restricts the Trustee’s investment powers by requiring the consent of the employers.

5. Governance

The Trustee is responsible for the investment of the Scheme assets. The Trustee has set up an Investment Sub-Committee (the **Committee**) to assist the Trustee, to maximise efficiency in investment related matters and to promote effective collaboration between the Trustee and the Firm. References in this statement to the Trustee include the Committee in relation to matters delegated to the Committee and the Trustee otherwise.

The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the

appropriate training and expert advice in order to take an informed decision. For this purpose the Trustee has established a decision making structure (see Appendix 1).

When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4) (see Appendix 1).

The Pensions Act distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased without a contract, e.g. the purchase of an insurance policy or units in a pooled vehicle. Those purchased without a contract are known as **direct investments**.

The Trustee's investment arrangement consists of a number of direct investments in pooled funds, and a buy-in bulk annuity policy. Each pooled fund will have an underlying manager and the Trustee's policy is for the underlying managers' duties to include:

- Realisation of investments.
- Taking account of the Manager's Responsible Investment policy.
- Voting and corporate governance in relation to the financial potential of the Scheme's assets.

The Trustee's policy is to review the range of its direct investments and to obtain written advice about them at regular intervals (normally annually). The written advice will also consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Fund managers are remunerated on an ad valorem basis. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

6. Review of these Investment Principles

The Trustee's policy is to review this statement at least every three years and immediately following any significant change in investment policy. The Trustee is required to take investment advice and consult with the Firm over any changes to this statement.

7. Arrangements with asset managers

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and

- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant.

The Trustee receives regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term (three and five year) performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee receives advice on the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the asset managers in by other means (such as through a side letter, in writing through provision of this statement, or verbally at trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies. The Trustee makes decisions based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager and may ultimately consider replacing the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

The Trustee does not regularly monitor asset managers against non-financial criteria of the investments made on its behalf.

8. Cost Monitoring

Ongoing reporting and compliance

The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall future value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by its asset managers that can increase the overall cost incurred on its investments.

Data collection

The Trustee seeks to collect annual cost transparency reports covering all of its investments and asks that the investment managers provide this data in line with the appropriate Cost Transparency Initiative (“CTI”) template for each asset class. This allows the Trustee to understand exactly what it is paying its investment managers.

Manager relationships

The Trustee will only appoint new investment managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and be an ongoing requirement for existing managers held by the Scheme.

Portfolio turnover

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers’ fund holdings change over a year. The Trustee does not actively monitor portfolio turnover.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager’s style and historic trends. The Trustee believes that focusing on net performance is the most appropriate way of ensuring that disproportionate levels of portfolio turnover do not have a negative impact on long term performance.

Analysis of manager performance and remuneration

The Trustee assesses the performance of their investment managers on a quarterly basis and the remuneration of their investment managers on at least an annual basis by collecting cost data in line with the CTI templates.

The Trustee assesses value for money received from their asset managers on a regular basis. This will be subject to advice from Aon and may be based on qualitative and/or quantitative factors. This enables the Trustee to have a detailed understanding of their overall costs independent to net of fees performance.

All of the Scheme's managers are remunerated on the basis of fees directly related to the value of funds under their management. The Trustee prefers to appoint any actively managed asset managers on a performance fee basis where possible, rather than on an annual management fee basis however the Trustee accepts that this may not always be possible/practicable.

9. Stewardship

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the scheme invests, as ultimately this creates long-term financial value for the scheme and its beneficiaries.

The Trustee regularly reviews the suitability of the scheme’s appointed asset managers and takes advice from its investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has

set out in its policy, the Trustee will undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's asset managers and ensure its managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with its investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of its active ownership policies, are being actioned.

The Trustee has previously completed a survey with their investment advisors to identify key areas of concern around corporate stewardship and will level scrutiny on their investment managers accordingly. It is the expectation of the Trustee that the Scheme's asset managers will prioritize and actively monitor for these risks within the investments, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate while balancing goals of asset returns.

The transparency for voting should include voting actions and rationale with relevance to the Scheme.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

B. INVESTMENT STRATEGY

1. Investment objective

The Trustee aims to invest the Scheme's assets prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, the Trustee first considered the lowest risk allocation that it could adopt in relation to the Scheme's liabilities and then selected a strategy that is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

2. Asset Allocation Restrictions

The Scheme holds a liquid investment portfolio of equities and liability matching gilts.

Additionally, following discussions with the Firm, the Trustee agreed to reduce asset and liability risks within the Scheme by entering into a buy-in bulk annuity policy with Legal and General Assurance Society Limited ("LGAS") during March 2019. This policy remains an asset of the Scheme and, at the point of investment, was valued at c. £60m. As the buy-in policy held by the Trustee is an illiquid asset which is intended to be held until any eventual wind-up of the Scheme, this has been excluded from the Monitored Asset Allocation outlined below.

The Scheme was also gifted an allocation to the Aviva Property Fund by the Sponsor. This was part of an unallocated surplus within the Trust's DC section (Money Purchase Section), the latter of which was transferred to a mastertrust managed by Legal and General in 2022 and subsequently wound up. As this fund is currently in wind up, the Trustee is expecting to receive cash proceeds from the sale of the underlying assets before the end of 2024. The Trustee does not consider this investment to be part of its strategic allocation and as it is in wind-up. The Trustee has asked Aon to provide regular updates on the wind up process.

| | Strategic Allocation (including buy-in) | | Monitored Asset Allocation (excluding the buy-in) | |
|-------------------------------------|--|----------------|--|------|
| Credit Portfolio | 20% | | 30% | |
| Investment Grade Credit | of which | 100% | of which | 100% |
| Liability Matching Portfolio | 80% | | 70% | |
| Liability Matching Gilts | | Not rebalanced | of which | 100% |
| Buy-in Bulk Annuity Policy | | Not rebalanced | | - |

Given the aim of the 'Liability Matching Gilts' portfolio is to protect the funding level of the Scheme against unexpected changes in interest rate and inflation expectations, the Trustee has agreed (having sought advice from Aon) that it is not appropriate to routinely rebalance the Liability Matching Portfolio (for the avoidance of doubt an appropriate allowance has been made for Credit Portfolio's contribution to interest rate hedging when constructing the Liability Matching Portfolio). Instead it will review the allocation periodically to take account of the changing liability profile of the Scheme and to ensure the bond allocation continues to provide the desired liability matching characteristics. Aon has recommended that any surplus funds, as a result of derisking activity or income distribution should be held in an appropriate liquidity fund pending a review of the LDI portfolio or to be drawn upon to meet cashflow requirements.

Before investing in any asset class the Trustee considers written advice from Aon and, in doing so, addresses the following:

- the need to consider a full range of asset classes;
- the risks and rewards of a range of alternative asset allocation strategies;
- the suitability of each asset class;
- the need for appropriate diversification.

3. Funding Target

The Trustee's policy is to target a funding position whereby many of the risks inherent in the current technical provisions basis can be removed – this target is 110% of solvency liabilities

which provides a buffer for future uncertainties, although it may aim for a higher target in order to facilitate the ultimate purchase of an additional bulk annuity policy. The Trustee considers that the current investment strategy is appropriate to meet and maintain this target.

The Trustee will consider the funding level at intervals not less often than required by the Pensions Act, and review the suitability of the agreed asset allocation to ensure that it remains appropriate.

4. Risk Measurement and Management

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (mismatching risk). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (cash flow risk). The Trustee and its advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee (manager risk). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure of the buy-in bulk annuity provider. This risk is considered by the Trustee and its advisers both upon the initial appointment of the provider and on an ongoing basis thereafter.
- The failure to spread investment risk (risk of lack of diversification). The Trustee and its advisers considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s sponsoring employer (covenant risk). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (operational risk). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from its investment adviser when setting the Scheme’s asset allocation, when selecting managers and when monitoring their performance.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment

strategy review. The Trustee's policy is to review its strategy and monitor these risks on a regular basis. The Trustee receives reports showing:

- Actual funding level versus the Scheme specific funding objective.
- Absolute performance of the Scheme and individual fund managers.
- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

5. Implementation

The Trustee considers the advice of its investment consultant in the appointment of fund managers, the investment vehicle used for each asset class, the mandate structures (including liability driven investment arrangements) and managers' investment objectives.

The Trustee will typically invest in units of pooled funds for all asset classes, most of which will be passively managed against a suitable market index or reference security.

The Trustee will monitor the suitability of its appointed fund managers and the chosen investment vehicles with the assistance of its investment consultant.

The underlying fund managers currently chosen by the Trustee for each fund and their investment objectives are set out in section 1 of a separate document entitled Fund Manager Information (FMI). The Trustee reviews the underlying fund managers on a regular basis, and can change them at any time.

The Trustee has a legal agreement with each of the Scheme's fund managers. Details of these managers are set out in section 1 of the FMI.

Effective Date: 6 February 2024



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Director of Slaughter and May Pensions
Trustees Limited

Appendix 1

a) The Trustee's Decision Making Structure

Scheme Trustee

- sets structures and processes for carrying out its role
- approves investment strategy, investment objectives and restrictions
- appoints the Investment Sub-Committee
- approves the Statement of Investment Principles
- approves or rejects decisions and recommendations made by the Investment Sub Committee

Investment Sub-Committee

- selects and monitors investment advisers and fund managers
- monitors and makes recommendations on investment strategy, investment objectives and restrictions
- selects and monitors direct investments
- makes day-to-day decisions relevant to operational principles of Scheme's investment strategy
- monitors actual returns against the investment objective

Investment Adviser

- advises on all aspects of the investment of the Scheme assets, including implementation
- advises on this statement
- provides required training
- constructs benchmark for liability matching portfolio

Fund Managers

- operate within the terms of this statement as reflected in their written contracts and in accordance with the Pensions Act
- select individual investments with regard to their suitability and diversification
- advise Trustee on suitability of the indices in their benchmark

Bulk Annuity Provider

- operate within the terms of the agreed policy documentation and in accordance with the relevant regulatory requirements
- provide the Scheme with cashflow associated with insured benefits

b) The Occupational Pensions Schemes (Investment) Regulations 2005

The Occupational Pensions Schemes (Investment) Regulations 2005 require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Slaughter and May Pension Scheme
Fund Manager Information (FMI)
From 6 February 2024

The Fund Manager Information document (FMI) sets out details of the underlying fund managers who manage the assets of the Slaughter and May Pension Scheme (the "Scheme"). Information on the principles governing decisions about the investment of the assets of the Scheme can be found in the Statement of Investment Principles.

Fund mandates under a pooled fund policy with Legal & General Assurance (Pensions Management) Limited

| Asset Class | Fund Name | Performance Target | Benchmark |
|-------------------------|---|--|-----------------------------|
| Investment Grade Credit | Future World Net Zero Buy and Maintain Fund | Produce a return derived from capital growth and income through investment in credit markets. The fund seeks to preserve its value over the course of the credit cycle by avoiding securities experiencing a significant deterioration in credit quality and defaults. | iBoxx GBP non gilt 5+ index |
| Fixed Interest Gilts | 2042 Gilt | To perform in line with benchmark | Reference security |
| Fixed Interest Gilts | 2047 Gilt | To perform in line with benchmark | Reference security |
| Fixed Interest Gilts | 2053 Green Gilt | To perform in line with benchmark | Reference security |
| Fixed Interest Gilts | 2060 Gilt | To perform in line with benchmark | Reference security |
| Fixed Interest Gilts | 2065 Gilt | To perform in line with benchmark | Reference security |
| Fixed Interest Gilts | 2071 Gilt | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2030 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2035 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2040 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2042 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2050 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2055 Index-Linked Gilts | To perform in line with benchmark | Reference security |

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|--------------------|-------------------------|--|--------------------|
| Index Linked Gilts | 2058 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2062 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2068 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Index Linked Gilts | 2073 Index-Linked Gilts | To perform in line with benchmark | Reference security |
| Liquidity | Sterling Liquidity fund | To provide a competitive rate of return, with reference to the benchmark | SONIA |