Statement of Investment Principles for the Baptist Pension Scheme ("the Scheme")

November 2022

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the Scheme ("the Trustee") on various matters governing decisions about the investments of the Scheme", a pension scheme with Defined Benefit ("DB") and Defined Contribution ("DC") sections. The DC section is known as the DC Plan. This SIP replaces the previous SIP dated April 2022.

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 (as amended), the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustee's response to the Myners' voluntary code of investment principles, and the DWP's 2018 guidance on matters pertaining to ESG including Climate Change.

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 account of 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 employers (the "Employers") 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 Plan, 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 details of how the Trustee monitors the voting and engagement undertaken by its managers and when and how it engages with managers on these issues.

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.

The Scheme purchased a first bulk annuity ("buy-in") policy in December 2019, and a second more recently in June 2022, to cover the DB Section members' guaranteed benefits.

The Trustee's secondary investment objective is to the realise the remaining illiquid assets in a timely fashion, and maintain surplus assets in cash until the buy-in policy can be assigned to the individual members and the Scheme can be wound up.

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

- an appropriate range of investment options, reflecting the membership profile of the DC Plan and the variety of ways that members can draw their benefits in retirement; and
- a main 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 main 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 retirement approaches.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with representatives of BUGB and the Employers' Group, purchased a first bulk annuity policy in December 2019 and more recently a second in June 2022 (which combined covers all DB members). The full details of the DB Section's asset distribution are contained in a separate document called the Investment Policy Implementation Document ("IPID").

For the DC Plan, 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. If a member does not choose an investment option, their account will be invested into the main default option, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

The DC Plan's main default arrangement is the Ethical Default Lifestyle strategy; this will be the default option for new joiners who do not make an active investment choice.

3.1. The DC Plan's main default arrangement

3.1.1. The Ethical Default Lifestyle strategy

The Ethical Default Lifestyle strategy has been designed to be in the best interests of the majority of the members based on the demographics of the DC Plan's membership. The default option has an initial growth phase under which investments target a return significantly above inflation. Then, in the 15 years before retirement it switches gradually into less risky assets. The asset allocation at retirement is designed to be broadly appropriate for all members however they wish to take their retirement benefits, since the Trustee believes that this represents the lowest risk option for DC Plan members.

To help manage the volatility that members' assets experience in the growth phase of the main default strategy, the Trustee has included an allocation to DGFs which over the long term are expected to generate returns above inflation, but with lower volatility than equities.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

3.2. Other default arrangements

In addition to the main default arrangement, the DC Plan has four additional default arrangements:

- the Lump Sum Lifestyle strategy (closed to new members);
- the L&G Diversified Fund;
- the L&G Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged; and
- the L&G Low Carbon Transition UK Equity Index Fund.

These default arrangements are considered to be defaults for governance purposes and must also meet charge cap restrictions.

3.2.1. The Lump Sum Lifestyle strategy

The Lump Sum Lifestyle strategy is the DC Plan's legacy default option and closed to new members but remains the default option for members who were within 5 years of retirement on 13 May 2019 and were able to remain in the legacy default option instead of being automatically transitioned to the Ethical Default Lifestyle strategy.

The legacy default option has an initial growth phase under which investments target a return significantly above inflation. Then, in the 15 years before retirement it switches gradually into less risky assets. The asset allocation at retirement is designed to be broadly appropriate for members who wish to take their entire benefits as a cash lump sum at retirement.

To help manage the volatility that members' assets experience in the growth phase of the legacy default option, the Trustee has included an allocation to DGFs which over the long term are expected to generate returns above inflation, but with lower volatility than equities.

3.2.2. The L&G Diversified Fund

The L&G Diversified Fund became a default arrangement when changes to the DC Plan's investment options were carried out in January 2022. These changes were in relation to the review of the DC Plan's investment strategy which took place in February 2021. The Trustee identified the L&G Dynamic Diversified Fund as being no longer suitable for members of the DC Plan and decided to close the fund and automatically move member's assets into the L&G Diversified Fund. The L&G Diversified Fund became a default arrangement for the members whose assets were automatically mapped into this fund. The Trustee believes that this fund is an appropriate default arrangement for these members, but the fund is not to be offered as a default option to the rest of the DC Plan's membership.

The L&G Diversified Fund is designed to provide long-term investment growth through exposure to a diversified range of asset classes.

3.2.3. The L&G Global Equity Market Weights (30:70) Index Fund – GBP 75% Currency Hedged

The L&G Global Equity Market Weights (30:70) Index Fund (75% currency hedged) became a default arrangement when changes to the DC Plan's investment options were carried out in May 2019. These changes were in relation to the review of the DC Plan's investment strategy which took place in May 2018. The Trustee identified the L&G Global Equity Fixed Weights (50:50) Index Fund as being no longer suitable for members of the DC Plan and decided to close the fund and automatically moved member's assets into the L&G Global Equity Market Weights (30:70) Index Fund. The L&G Global Equity Market Weights (30:70) Index Fund became a default arrangement for the members whose assets were automatically mapped into this fund. The Trustee believes that this fund is an appropriate default arrangement for these members, but the fund is not be offered as a default option to the rest of the DC Plan's membership.

The L&G Global Equity Market Weights (30:70) Index Fund is designed to provide diversified exposure to UK and overseas equity markets while reducing foreign currency exposure of 75% of the overseas assets.

3.2.4. The L&G Low Carbon Transition UK Equity Index Fund

The L&G Low Carbon Transition UK Equity Index Fund became a default arrangement when changes to the DC Plan's investment options were carried out in April 2022. These changes were in relation to the review of the DC Plan's investment strategy which took place in February 2021. The Trustee identified the BMO Responsible UK Income Fund as being no longer suitable for members of the DC Plan and decided to close the fund and automatically move member's assets into the L&G Low Carbon Transition UK Equity Index Fund. The L&G Low Carbon Transition UK Equity Index Fund became a default arrangement for the members whose assets were automatically mapped into this fund. The Trustee believes that this fund is an appropriate default arrangement for these members, but the fund is not to be offered as a default option to the rest of the DC Plan's membership. The L&G Low Carbon Transition UK Equity Index Fund is designed to provide exposure to the UK equity market while on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues. Companies that fail to meet L&G's minimum standards in low carbon transition and corporate governance standards may be excluded from the fund.

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.

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

- 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 assumptions, 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 (such as those detailed in Section 7);
- the Trustee's ethical policy, which the Trustee believes reflects the wishes of the Scheme's members and is not expected to undermine the long-term objectives of the Scheme; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the DC Plan 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 main default strategy to ensure that 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 periods until members' retirement, or any other timeframe which the Trustee believes to be appropriate (such as those detailed in Section 7);
- the Trustee's ethical policy, which the Trustee believes reflects the wishes of the Scheme's members and is not expected to undermine the long-term objectives of the members; 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, which influenced the setting of the investment arrangements for both DB Section and DC Plan, 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 including factors relating to Climate Change;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.
- The Trustee's key investment beliefs and understanding of the Scheme's membership are reflected in the design of the Ethical Default Lifestyle strategy 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 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 and buy-in provider for the DB Section and the investment managers for the DC Plan are set out in the IPID.

In respect of the DC Plan, the Trustee has entered into a contract with L&G as its platform provider, who makes available the range of investment options to members. There is a direct relationship between the Trustee and L&G but not with third party underlying investment managers of the DC investment funds.

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 where a majority of 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 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. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager 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. If a manager is not meeting its performance objectives, the Trustee will consider alternative arrangements. 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 considering 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. 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. Since the impact of these costs is reflected in performance figures provided by the investment managers, the Trustee does not explicitly monitor portfolio turnover. 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, the buy-in provider is obliged to deliver the cash flow stipulated in the contract, which is designed to pay member benefits in full and on time.

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

7. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social and governance ("ESG") considerations (including but not limited to climate change) should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers and buy-in provider to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers and buy-in provider 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 has limited influence over managers' and buy-in providers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee has decided that, in the investment of the DB Section's assets, the buy-in provider should be aware of its ethical guidelines and encouraged to adopt similar policies where possible. The current guidelines are those set out in the Trustee's Ethical Investment Policy document. The Trustee believes that this stance should not undermine the long-term objectives of the Scheme.

The Trustee has taken into account its ethical guidelines when appointing and reviewing the DB Section's buy-in provider. The Trustee cannot usually directly influence the buy-in provider's policies on ethical factors but will make the buy-in provider aware of its views.

Within the DC Plan, the Trustee has chosen to invest the equity allocation of the Ethical Default Lifestyle strategy in a passively managed fund that tracks an index that has reduced exposure to ESG and ethical risks and increased exposure to ESG and ethical opportunities. The Ethical Default Lifestyle strategy components are also available as separate investment options members can select. Outside of the Ethical Default Lifestyle strategy funds, the DC Plan offers an actively managed equity fund which invest in ESG and ethically screened equities as well as a passively managed equity fund which tilts the Fund in favour of companies with lower greenhouse gas emissions.

8. Voting and engagement

The Trustee recognises its responsibility as the owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity but it does engage with current and prospective investment managers on matters including ESG and stewardship. Further details on how the Trustee implements its voting and engagement policy is set out in Appendix 3.

Investment governance, responsibilities, decision-making and fees

In broad terms the Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This 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.

1. Trustee

The Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employers;
- setting the investment strategy, in consultation with the employers;
- formulating a policy in relation to financially material factors and exercise of rights and engagement activities in respect of the investments, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters, including ethical considerations, in the selection, retention and realisation of investments;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that it has 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;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the SIP and modifying it as necessary.

The Trustee has delegated consideration of certain investment matters to an investment sub-committee ("ISC"), and the Trustee and ISC understand the different areas where each party makes decisions, provides oversight or recommendations. The terms of reference for the ISC detail clearly its responsibilities.

2. Platform provider

The investment platform provider for the DC Plan, L&G, will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. 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;
- 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) attaching to investments and undertaking engagement activities in respect of investments;
- providing regular information concerning the management and performance of their respective portfolios; 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 are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Bulk annuity 'buy-in' provider

The buy-in provider is responsible for making payments to the Scheme under the terms of the buy-in contracts signed in December 2019 and June 2022. These payments cover members' benefits secured under the policies.

5. Investment adviser

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

- in relation to 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;
- in relation to the DC Plan, advising on a suitable fund range and default strategy, and how material changes to legislation or within the DC Plan'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.

6. 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 and platform provider receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. 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.

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.

7. Performance assessment

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

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

8. Working with the Scheme's employers

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employers' perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employers, the Trustee believes that better outcomes will generally be achieved if the Trustee and employers work together collaboratively. Primarily this is achieved through discussion with representatives of BUGB and the Employers' Group.

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 Trustee aims 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 employers' covenant and how this may change in the near/medium future;
- the agreed journey plan and employers' 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.

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. Having purchased a buy-in policy to cover members' guaranteed benefits, the Trustee believes that the risk of inadequate future returns is now very small.

In the DC Plan, 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 Ethical Default Lifestyle strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the main default option a "lifestyle" strategy.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. Given the protections afforded by the buy-in policy, diversification is less important in the DB Section.

The Trustee believes that the Scheme's main DC default strategy is 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. 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. This risk has been significantly reduced by the purchase of the buy-in policy (with the exception of the illiquid assets yet to be realised).

For the DC Plan, 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 main default strategy and diversifying the strategy across different types of investment.

2.5. 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 from time to time review how this risk is being managed in practice.

2.6. Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.7. Risk from excessive charges

Within the DC Plan, if the investment management charges together with other charges levied on, for example, transfer 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 market practice and assess regularly whether these represent good value for members.

2.8. Equity risk

Within the DC Plan, the Trustee believes that equity risk is a rewarded investment risk, over the long term. It considers exposure to equity risk in the context of the members' investments and believe that the level of exposure to this risk is appropriate.

2.9. 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.

Within the DC Plan, the Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment manager and custodian of those funds. Direct credit risk arising from pooled funds is mitigated by the underlying assets of the pooled funds being ring-fenced from the investment managers, the regulatory environments in which the pooled fund managers operate and diversification of the Scheme's investments across a number of pooled funds. The Trustee, with the help of its advisors, carries out due diligence checks prior to the appointment of any new investment manager or fund, and monitors for changes in the operating environment of the existing investments.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds where they invest in bonds and other assets of a contractual nature (eg property and Ruffer Pacific and Emerging Markets Fund)

The managers of these pooled funds manage credit risk by having a diversified exposure to bond issuers, tenants and derivative counterparties, conducting thorough research on the probability of default of those entities, and having a controlled and carefully considered exposure to counterparties rated below investment grade. The magnitude of credit risk within each fund will vary over time as the managers change the underlying investments in line with their views on markets, asset classes and specific securities.

The Scheme is subject to direct credit risk via its exposure to the bulk annuity provider, although there are a number of mitigating factors that protect against this, including but not limited to the insurance regime, regulatory scrutiny and the Financial Services Compensation Scheme.

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 buy-in policy held in the DB Section is subject to interest rate and inflation risk. However, the interest rate inflation exposure of the buy-in policy hedges the corresponding risks associated with the Scheme's liabilities. The net effect is to very substantially reduce the volatility of the funding level.

2.12. 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/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.

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.

2.13. 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 employers are unable to support the Scheme as anticipated).

The purchase of the buy-in policy in December 2019 and June 2022 effectively extinguished these risks.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Monitoring and engaging with managers on voting and engagement

1. Stewardship priorities

We have selected priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are climate change and human rights.

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

We will write to our investment managers regularly to notify them of our stewardship priorities and remind them of our expectations of them in relation to responsible investment – ie ESG considerations, climate change, voting and engagement.

2. Manager selection

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

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

3. Manager monitoring

The Investments Committee receives information regularly to enable us to monitor our managers' responsible investment practices and check how effective these are.

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

4. Annual responsible investment review

Each year, the Investments Committee undertakes a more comprehensive review of our managers' responsible investment practices. This includes our investment consultant's qualitative responsible investment assessments for each manager, including how the manager mitigates climate change risk, and an assessment against the Trustee's Ethical Investment Policy.

5. Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements. In particular, investment managers are routinely invited to meetings with the Investments Committee and the investment consultant.

We review the information outlined above to identify any concerns, for example where the managers' actions are not aligned with our views. Where there are concerns, we typically seek further information through our investment consultants.

6. Implementation statement including most significant votes

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our Statement of Investment Principles during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The Investments Committee selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- whether it relates to one of our stewardship priorities;
- the potential financial impact of the vote;
- any potential impact of the vote on our investor rights or influence;
- the size of our holding; and
- whether the vote was high-profile or controversial.