

Statement of Investment Principles for the Sibelco UK Occupational Pension Scheme – September 2020

7 September 2020

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Sibelco UK Occupational Pension Trustee Ltd (the "Trustee") on various matters governing decisions about the investments of the Sibelco UK Occupational Pension Scheme (the "Scheme"), a scheme with Defined Benefit ("DB") and Defined Contribution ("DC") sections. This SIP replaces the previous SIP dated September 2019.

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

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

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

- **Appendix 1** sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

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

- that the expected return on the Scheme's assets is maximised whilst managing and maintaining investment risk at an appropriate level. What the Trustee determines to be an appropriate level of risk is set out in Appendix 2.

- that the Scheme should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). 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 the Scheme should achieve full funding by 31 December 2026 on an agreed self-sufficiency basis, based on a long-term journey plan in which has been agreed with the Company. Progress against this long-term journey plan is reviewed on a regular basis.

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

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

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer, reviewed the investment strategy for the DB and DC Sections in November 2018 and July 2018 respectively, taking into account the objectives described in Section 2 above.

3.1. DB Investment strategy

The result of the review for the DB Section was that the Trustee agreed that the investment strategy of the DB Section should be based on the allocation below.

Asset class	Strategic allocation
Matching portfolio	62%
Non-matching portfolio	38%
Total	<u>100%</u>

The Matching portfolio consists of a mix of a liability driven investment portfolio, absolute return bonds and asset-backed securities.

The Non-matching portfolio consists of equities and other return-seeking assets. Details of how each portfolio is invested are provided in the Scheme's separate Investment Policy Implementation Document ("IPID").

The Trustee's normal policy is to invest or disinvest new cashflows (ie contributions less benefits and expenses) in such a way as to maintain the current strategic asset allocation of the Scheme's DB Section.

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There is no formal rebalancing policy. 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.

Under the agreed long-term journey plan, the current 62% Matching portfolio / 38% Non-matching portfolio investment strategy is expected to remain in place until the end of 2026. At this point, it is expected that the DB Section's funding position will have improved so that the strategy can be de-risked further to an 85% Matching portfolio / 15% Non-matching portfolio capable of supporting the DB Section on a self-sufficiency basis.

3.2. DC investment arrangements

For the DC Section, 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 Lifestyle Default, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age.)

The Lifestyle Default option was designed to be in the best interests of the majority of the members based on the demographics of the DC Section's membership. The Lifestyle Default option targets drawdown at retirement, since the Trustee believes that most members will wish to take their benefits in this form. Therefore, in the initial growth phase the Lifestyle Default option is invested to target a return significantly above inflation, and then in the 10 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking drawdown.

To help manage the volatility that members' assets experience in the growth phase of the Lifestyle Default strategy, the Trustee has included an allocation to "diversified growth", which over the long term is expected to generate returns materially 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.

If a fund can no longer accept contributions (eg it is temporarily suspended from trading), and a member making contributions to that fund does not provide an alternative investment instruction, then their contributions to that fund will be invested into a default arrangement that is selected by the Trustee. The Trustee has selected the L&G Cash Fund as the default option for this purpose (the "Cash Default"). The Cash Default is designed to be in the best interests of the members who require a short-term, temporary investment option. The objective of the Cash Default is to

provide a high level of capital protection and a return linked to short term interest rates. Further details are included in the IPID.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's DB and DC Section 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. As at 30 June 2019, the key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 5.25% pa. The other key assumptions for expected returns above gilts are as follows:

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| • Average long-term return on Dynamic LDI | 0.5% |
| • Average long-term return on asset-backed securities | 1.5% |
| • Average long-term return on diversified growth | 3.0% |
| • Average long-term return on private credit | 3.7% |
| • Average long-term return multi-asset credit | 2.3% |
| • Average long-term return absolute return bonds | 1.1% |
| • Average long-term return on emerging markets multi-asset | 4.8% |

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

- the best interests of all members and beneficiaries;
- the Trustee's investment objectives, including the target return required to meet these;
- the cash flow requirements to meet benefit payments in the near to medium term;
- the circumstances of the DB Section, 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 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 believes is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

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

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- 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 Lifestyle Default strategy and other lifestyle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members, including the Cash Default;
- 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; 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 both the DB Section and DC Section 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;
- 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;
- long-term environmental, social and economic sustainability is one factor that the Trustee should consider when making investment decisions; 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 DB Section and DC Section membership are reflected in the design of DB Section strategy and, for the DC

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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 the separate Investment Policy Implementation Document.

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

The Trustee has signed agreements with the investment managers, as well as a platform provider in respect of the DC Section, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments.

The 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 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 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

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appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well 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.

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

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

7. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, and governance factors ("ESG") 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 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 and challenges how its managers are taking account of these issues in practice.

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

The Trustee does not take into account any non-financial matters (ie matters relating to ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Within the DC Section the Trustee recognises that some members may wish for ethical matters to be taken into account in their investments and therefore has made available an ethical equity fund as an investment option to members.


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 attaching to investments, protect and enhance the long-term value of investments. 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 does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

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

Signed:



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.

1. 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 the policy for rebalancing between asset classes;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- 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;
- appointing, monitoring, reviewing, and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers 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 content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer(s) when reviewing the SIP.

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The Trustee has delegated consideration of certain investment matters to an Investment Committee ("IC"), although any decisions remain the responsibility of the Trustee. The terms of reference for the IC detail clearly its responsibilities.

Appendix 1 (cont)

2. Platform provider

In respect of the DC Section, the investment platform provider 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

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) attaching 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; 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.

4. Investment adviser

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

- the DB Section, advising on how material changes within the Scheme's benefits, membership, and funding position may affect the way the assets should be invested and the asset allocation policy;
- the DC Section, advising on a suitable fund range and default strategies for the Scheme, and how material changes to legislation or within the Scheme's benefits and membership may impact this;

- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

5. 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 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.

6. 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.

7. Working with the Scheme's employer

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

1. Risk appetite and risk capacity

For the DB Section, risk appetite is a measure of how much risk the Trustee is willing to bear 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 for the DB Section, 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 DB Section's long-term and shorter-term funding targets;
- the DB Section's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the DB Section'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 DB Section's current investment strategy, as at November 2018, the DB Section's 1 year 90% Value at Risk was estimated to be £11.3m¹. This means that there is estimated to be a 1 in 10 chance that the DB Section's funding position will worsen by £11.3m or more, compared to the expected position, over a one-year period. When deciding on the current DB Section investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the DB Section's objectives.

For the DC Section, it is for each member to decide their own risk appetite and risk capacity. For those members who do not wish to do so, the Trustee has made available the Lifestyle Default.

¹ More details, including the underlying assumptions, available on request.

2. Approach to managing and monitoring investment risks

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

2.1. Risk of inadequate returns

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

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

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustee believes that the Scheme's DB assets and both DC default arrangements are adequately diversified between different asset classes and within each asset class and the DC options provide a suitably diversified range for members to choose from. Diversification was a key consideration when determining both the Scheme's DB Section and DC Section investment arrangements and is monitored for each 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 it remains appropriate for its selected mandates.

2.4. Illiquidity/marketability risk

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

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

2.5. Environmental, social and governance ("ESG") risks

Environmental, social and corporate governance ("ESG") factors are sources of risk to the Scheme's investments, some of which could be financially material, 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 their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Collateral adequacy risk

The DB Section 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 DB Section's interest rate and inflation hedging could be reduced and that the DB Section's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the DB Section has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.7. Risk from excessive charges

Within the DC Section, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to both the DB Section

and DC Section are in line with market practice and assesses regularly whether these represent good value for members.

2.8. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The DB Section and DC Section of the Scheme are both subject to credit risk because they invest 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.

2.9. Currency risk

Whilst the majority of the currency exposure of the Scheme's DB Section assets is to Sterling, the DB Section is subject to currency risk because some of its 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 or implement separate currency hedging arrangements.

For the DC Section, the Trustee believes that, at any given term to retirement, the level of currency exposure within the Lifestyle Default option is appropriate.

2.10. Interest rate and inflation risk

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

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

As a result, the Trustee aims to hedge around 95% of the DB Section's exposure to interest rate risk and 95% of the DB Section's exposure to inflation risk, by investing in a mixture of bonds as well as leveraged LDI arrangements.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the DB Section 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.

For the DC Section, the Trustee believes that, at any given term to retirement, the levels of interest rate and inflation risk within the Lifestyle Default option are appropriate.

2.11. Other non-investment risks

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

Examples for the DB Section include:

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

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

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