

Statement of Investment Principles for the High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme (UK)

November 2024

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme (UK) ("the Trustees") on various matters governing decisions about the investments of the High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme (UK) ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated July 2023.

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) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

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

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

- **Appendix 1** sets out details of the respective key responsibilities of the Trustees, 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 Trustees' policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

The Trustees' primary objective is to ensure that the Scheme should be able to meet benefit payments as they fall due.

In addition to this primary objective, the Trustees have additional objectives. These are as follows:

- that the Scheme should be fully funded (ie the asset value should be at least that of its liabilities). The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme; and

- to maximise the return on the Scheme's assets whilst managing and maintaining investment risk at an appropriate level, taking into account the primary objective.

3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employer, undertook a full review of the investment strategy in 2022-2023, taking into account the objectives described in Section 2 above. Following on from this initial review and the comments from the sponsoring employer, the Trustees have undergone a number of further considerations before determining the final strategic allocation.

As a result of these reviews, the Trustees agreed that the investment strategy of the Scheme should be based on the allocation below, the final transition required to reach the below allocation was completed in December 2023.

Asset Class	Proportion %	Expected Return (relative to fixed interest gilts) ⁽¹⁾ %
Liability Driven Investment + Cash	38	0.0
Equity	15	4.0
Property	10	2.4
Infrastructure	10	4.9
Private Credit	10	4.2
Muti-Asset Credit	10	2.6
Absolute Return Bonds	8	1.5
Total	100.0	2.5⁽²⁾

⁽¹⁾ Expected returns are 10 year assumptions (net of investment management fees) as at 31 March 2023. ⁽²⁾ Expected return figure includes diversification benefit.

There is no formal rebalancing policy. The Trustees monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, the Trustees will consider with their advisers whether it is appropriate to rebalance the assets, taking into account factors such as market conditions and anticipated future cash flows.

During 2024 there were significant developments regarding the Scheme's Property fund holdings, with one of the property funds being fully redeemed in September 2024 and the other fund under review. This coupled with the fact the Private Credit fund will naturally wind down over time means that there will be greater deviation from the high-level strategic asset allocation. The Trustees will monitor this in

terms of level of overall risk and return within the portfolio and make updates to the portfolio as appropriate. At the point a more settled asset allocation is in place, this document may be updated to reflect this.

As the Scheme matures over time, the Trustees will seek to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy will gradually target a higher allocation to lower risk assets as the Scheme matures. However, as this is an open scheme this is expected to be a long-term process.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider 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 Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes.

In setting the strategy the Trustees also took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- 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 Trustees consider financially material over the time horizon that the Trustees consider is needed for the funding of future benefits by the investments of the Scheme; and
- the Trustees' investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;

- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
 - environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that Trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

The Trustees have informed the investment advisers in writing of an investment prohibition for the Scheme and apply this in respect of all of the Scheme's future private asset investments. This restricts any investment that does not comply with Canadian Sanctions Law (with any entity not being in compliance with Canadian Sanctions Law (directly or indirectly) being a "Prohibited Entity"). In most cases this will be done via a side letter agreement with the investment manager to accompany their standard documentation.

In the case of public market investments, the Trustees invest with investment managers who fall under regulatory requirements which mean that they are likely to be broadly aligned to Canadian Sanctions Law, the Trustees may consider this specifically from time to time.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the separate Investment Policy Implementation Document ("IPID").

The Trustees have signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to give effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' 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 Trustees' responsibility to ensure that the managers' investment approaches are consistent with their 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 Trustees expect 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. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise 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 Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustees' preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding a small amount of the Scheme's assets in investments that are less liquid (eg property). In general, the Trustees' policy is to use cash flows to rebalance the Scheme's assets towards the strategic asset allocation.

7. Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

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

8. Voting and engagement

The Trustees recognise their responsibilities as owners of capital, and believe 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 Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	The Trustees receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.	- There are significant changes made to the investment strategy. - The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations. - Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate	The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.	The manager has not acted in accordance with their policies and frameworks (including stewardship priorities).

Governance factors and the exercising of rights	• The Trustees receive information from their investment advisers on the investment managers' approaches to engagement. • The Trustees will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Scheme's stewardship priorities) at least annually.	
---	---	--

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager's appointment and will consider terminating the arrangement.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect 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 Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees 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 Trustees review how these are implemented in practice.

9. Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

10. Employer-related investments

The policy of the Trustees is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme's total asset value. The Trustees will monitor this on an ongoing basis to ensure compliance.

SIP signed for and on behalf of the Trustees of the High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme (UK):

Signed: Agreed by the Trustees of the High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme (UK) on meeting date 11 December 2024

Date:.....

Responsibilities, decision-making and fees

Appendix 1

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service. The Trustees' investment powers are set out within the Scheme's governing documentation.

1. Trustees

In broad terms, the Trustees are 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;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- reviewing the investment policy as part of any review of the investment strategy;
- 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;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustees' assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment Meeting

The Trustees will normally meet four times a year for the specific purpose of reviewing and considering the Scheme's investment arrangements in line with their Trustee Board Investment Meetings' Terms of Reference (ToR). Specifically, the role of the Trustees in relation to the Investment Meeting will be as follows:

- to monitor the Scheme's investment portfolio as is deemed appropriate to meet return and risk expectations;
- to monitor the Scheme's AVC investments and to ensure that they are deemed appropriate to meet members' requirements and the requirements as set out by The Pensions Regulator's DC code;

- to proactively consider the continued suitability of the Scheme's investment strategy within its own guidelines;
- to ensure appropriate rebalancing of the Scheme's assets;
- to review and consider alternative investment strategies that may assist in improving the financial efficiency of the Scheme's investment portfolio;
- to meet with the Scheme's investment managers at such frequencies as deemed appropriate by the Trustees to receive updates on:
 - performance;
 - future investment strategies and opportunities;
 - key personnel and governance structure changes;
 - Environmental, Social and Governance policies (internal and external);
 - and any other matter that may affect future investment performance.
- to consider whether the Scheme's current investment managers remain appropriate in the context of their position within the Scheme's overall investment portfolio (asset allocation);
- to work with the Scheme's Investment Consultant on any fee negotiations and terms of the Investment Management Agreement between the managers and the Scheme;
- to approve the termination and appointment of investment manager(s) as deemed appropriate, while ensuring the risk profile of the Scheme remains within its own guidelines;
- to receive and review quarterly written reports from the Scheme's Investment Consultant and the Scheme's investment managers;
- to minute all activities that have been undertaken, all items that are being considered going forward and the investment performance and risk profile of the Scheme;
- to review periodically the Statement of Investment Principles in line with governing legislation and to ensure this is posted to a publicly accessible website;
- to review and approve an Implementation Statement annually, for inclusion in the Trustees' Annual Report and Accounts in line with governing legislation, and to ensure this is posted to a publicly accessible website;
- to consider and maintain an environmental, social and governance policy in relation to the Scheme's investments, its Investment Consultants, and investment managers;
- to set and periodically review investment objectives for the Investment Consultant in line with governing legislation, and to consider the review of performance against those objectives annually – including regulatory reporting; and
- to oversee the appointment and termination of the Investment Consultant, should it be deemed a change is required.

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 Trustees 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 Trustees 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 Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and ☐ participating with the Trustees in reviews of this SIP.

5. Fee structures

The Trustees recognise 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 Trustees have agreed Terms of Business with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management 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 Trustees 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 Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so. The current annual management charges ("AMCs") agreed with the managers are outlined in the separate Investment Policy Implementation Document.

6. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. The Trustees will also carry out periodically an

assessment of their own effectiveness as a decision-making body 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 Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work together collaboratively.

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet their investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long-term objectives before attainment of those objectives is seriously impaired. The Trustees' aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

As at 31 December 2022, the 3 year 95% Value at Risk for the Scheme's strategy was estimated to be £14.6m¹. This means that it is estimated that there is a 1 in 20 chance that the Scheme's funding position will worsen by £ 14.6m or more, compared to the expected position, over a three year period. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustees' and employer's risk appetite and capacity, given the Scheme's objectives.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

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

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 Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was 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 Trustees receive written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

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 Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice.

2.6. Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustees when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustees ensure that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

Legal and General Investment Management (LGIM) has been selected as the LDI manager. LGIM sets a minimum collateral requirement to be held within its LDI funds, taking into account regulatory guidance and its own risk management framework. The Trustees hold additional liquid collateral with LGIM in order to reduce collateral adequacy risk including liquid Cash

funds, Credit funds and equities. Further liquid assets are held with M&G in order to further reduce collateral adequacy risk.

2.7. Credit risk

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

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled funds that have a

diversified exposure to different credit issuers, and only invests in bonds that are classified as “investment grade”.

2.8. 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 Trustees consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustees manage the amount of currency risk by investing in pooled funds that hedge some of the currency exposure.

2.9. Interest rate and inflation risk

The Scheme’s assets are subject to interest rate and inflation risk because some of the Scheme’s assets are held in bonds and swaps via pooled funds. However, the interest rate and inflation exposure of the Scheme’s assets hedges part of the corresponding risks associated with the Scheme’s liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner and to review them on a regular basis. The Scheme’s LDI investments aim to hedge c.100% of these risks on a Technical Provision basis.

2.10. Other non-investment risks

The Trustees recognise 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.

Examples include:

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

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme’s funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Appendix 3

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective. The Scheme's Infrastructure and Private Credit mandates are subjected to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. - The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. - The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.	The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. - For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Scheme's liquidity requirements. - For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
Voting Policy - How the Trustees expect investment managers to vote on their behalf	The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
Engagement Policy - How the Trustees will engage with investment managers,	- The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf. - The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

direct assets and others about ‘relevant matters’	• Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees’ investment decision making.
---	---