Abbey Life Assurance Company Limited Staff Pension Scheme (“the Scheme”)

Statement of Investment Principles

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

Responsibility for the Scheme's investment strategy

The Trustee is responsible for the investment strategy of the Scheme. It has obtained written advice on the investment return targets appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited (the “Investment Consultant”) who are authorised and regulated by the Financial Conduct Authority.

The Trustee has consulted with the Principal Employer prior to writing this Statement and have taken the employer’s comments into account when they believe it is appropriate to do so.

The day to day management of the Scheme's assets has been delegated to investment manager who is authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the investment manager and members of the Scheme upon request.

Objectives

The Trustee's objectives for the investment strategy of the Scheme have been determined with regard to the actuarial characteristics of the Scheme; in particular the strength of the funding position and the liability profile.

The Trustee's primary objectives are:

- Achieve a higher return than the lowest risk strategy, while maintaining a prudent approach to meeting the Scheme's liabilities, and
- Target an agreed level of outperformance in line with relevant actuarial assumptions.

Risk

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

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustee and its advisers will manage the Scheme’s cash flows, taking into account the timing of future payments, in order to minimise the probability that this occurs.
- The failure by the investment manager to achieve the rate of investment return assumed by the Trustee (“manager risk”). This risk is considered by the Trustee both upon the initial appointment of the investment manager and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustee and its advisers considered this risk when setting the Scheme’s investment strategy and have also mandated its investment manager that a suitably diversified portfolio of assets should be maintained at all times.
- The possibility of failure of the Scheme’s sponsoring employer (“covenant risk”). The Trustee and its advisers considered this risk when setting the investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

- The LDI investment introduces specific operational risks, such as counterparty risk, and the Trustee has received advice around the quality of risk controls in place at the specific underlying manager.
- The risk arising from the failure of the selected long-term investment strategy to deliver the level of expected return or risk characteristics necessary to meet the Trustee's objectives. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities, the Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives periodic reports showing:

- The Scheme's funding level.
- Performance of its investment manager versus its respective targets.
- Any significant issues with the investment manager that may impact its ability to meet the performance targets set by the Trustee.

Choosing Investments

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The types of investments held, and the balance between them, is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme, and the Trustee's objectives.

Investment management responsibility is delegated to the investment manager who is appointed by the Trustee. The assets of the Scheme are invested in a combination of regulated and private markets and diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings, so as to avoid accumulations of risk in the portfolio as a whole.

Further details on investments can be found within Appendix A to this document.

Asset Allocation Strategy

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustee's policy is to make the assumption that growth assets will outperform gilts on average over the long term. However, the Trustee recognises the potential volatility in growth asset returns, particularly relative to the Scheme's liabilities, and the risk that the investment manager does not achieve the targets set.

When choosing the Scheme's planned asset allocation strategy, the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

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

In addition, the Trustee also consulted with the sponsoring employer when setting this strategy.

Further details on the asset allocation strategy can be found within Appendix A to this document.

Realisation of Investments/Liquidity

The Trustee recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds), although a meaningful proportion of assets are to be invested in private loans, which are illiquid in nature.

Environment, Social and Governance

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the asset allocation, when selecting managers, and when monitoring their performance.

Stewardship – Voting and Engagement

As part of their delegated responsibilities, the Trustee expects the Scheme's investment manager to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee's voting rights in relation to the Scheme's assets.

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

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

The transparency for voting provided by the investment managers will include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes were abstained; voting differed from the voting policy of either the Trustee or the investment manager. The Trustee recognises that these collaborative behaviours can work to further mitigate the risks identified for the Scheme.

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

Members' Views and Non-Financial Factors

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

Arrangements with investment managers

The Trustee monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

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

The Trustee receives quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term expected performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and assess the investment managers realised performance over long time periods.

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

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

There is typically no set duration for arrangements with investment managers, although the continued appointment of investment managers is assessed on an ongoing basis.

Cost Monitoring

Understanding costs

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

The Trustee will collect annual cost transparency reports covering all of their investments in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what costs are incurred across the investment portfolio.

Portfolio turnover costs

The Trustee will monitor portfolio turnover costs (defined as the costs incurred as a result of the buying and selling of investments) with the help of its investment consultant.

The Trustee accepts that, depending on the strategy, some transaction costs will need to be incurred to drive investment returns. The level of these costs varies across asset classes and by manager style within an asset class. For this reason, there is no overall target for portfolio turnover, and this is reviewed on a case by case basis depending on market circumstances and manager strategy.

Governance

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

Trustee (a) Monitor actual returns versus Scheme investment objective. (b) Set structures and processes for carrying out its role. (c) Set structure for implementing investment strategy. (d) Select investment advisers and investment managers. (e) Monitor investment advisers and investment managers. (f) Select and monitor direct investments (see below). (g) Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy.
Investment Adviser (a) Advise on all aspects of the investment of the Scheme assets (b) Advise on this statement. (c) Provide required training.

Investment Managers
(a) Operate within the terms of this statement and their written contracts.
(b) Select individual investments with regard to their suitability and diversification.
(c) Advise Trustee on suitability of the indices in its benchmark.
(d) Select and monitor planned asset allocation strategy.

The Pensions Act 1995 distinguishes between investments where the management is delegated to an investment manager with a written contract, and those where a product is purchased directly e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the investment manager.

The policies set out in this SIP apply to the Defined Benefit assets and also encompasses elements that relate to the AVC assets. Where there are variances to these policies specific to the AVC assets, which the Trustee is obligated to comment on, these are set out in Appendix B.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the investment manager or policy providers) against the following criteria:

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

The Trustee believes that their investment adviser has the knowledge and experience required under the Pensions Act 1995 to advise on the suitability of any such investments.

The Trustee will, in any case, review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the sponsoring employer over any changes to the SIP.

Neil C H Tointon Chairman ALTSL	Original Signed by Neil C H Tointon	25th September 2020
Name	**Signature**	**Date**

Signed for and on behalf of Abbey Life Trust Securities Limited ("ALTSL") as the Trustee of the Abbey Life Assurance Company Limited Staff Pension Scheme

<u>Abbey Life Assurance Company Limited Staff Pension Scheme ("the Scheme")</u>

<u>Statement of Investment Principles for the default arrangement</u>

This Statement of Investment Principles for the default arrangement ("**default arrangement SIP**") covers the default arrangement within the Scheme and applies to Additional Voluntary Contributions ("**AVCs**").

This default arrangement SIP should be read as an addendum to the main Statement of Investment Principles ("**Main SIP**") for the Scheme, a copy of which is included as an annex to this document.

If there is any difference between the default arrangement SIP and the provisions of the Trust Deed of the Scheme, the provisions of the Trust Deed will prevail (including any amendments to the Trust Deed from time to time).

The Scheme has identified the default arrangement as the Standard Life Deposit and Treasury Pension Fund in relation to AVCs.

Trustee's Aims and Objectives in respect of the default arrangement

The Trustee's objective is to invest the assets held in respect of members of the Scheme for and from whom there is no current investment instruction in an investment vehicle which has as its aims:

1) as far as possible to preserve capital value and;
2) to provide a return on investment similar to that which might be achieved on cash deposits in a bank or building society or money market funds

Explanation of how the Trustee's Aims and Objectives are intended to ensure that the default arrangement is invested in the best interest of members

This default arrangement protects the capital value of the member's fund, until the member gives a valid investment instruction to the Trustee. With the benefit of investment advice, the Trustee has determined that the Standard Life Deposit and Treasury Pension Fund is the appropriate investment vehicle for these purposes.

The Trustee will review the ongoing appropriateness of the default arrangement with reference to these aims including the extent to which the return on investments relating to the default arrangement (after deduction of any charges relating to those investments) is consistent with the Trustee's aims and objectives, through its process of regular reviews of the Scheme's investment options.

The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended are those set out in the Main SIP as they apply to the default arrangement (see Annex).

Abbey Life Assurance Company Limited Staff Pension Scheme
("the Scheme")

Appendix A - Asset Allocation Document

This document sets out the Trustee's current investment strategy and is reflective of the amendment to the Investment Management Agreement dated 5 March 2019.

The Trustee's investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the Trustee's Statement of Investment Principles (SIP). The details are laid out below:

Investment Management Arrangements

The investment objectives are for the investment manager, Aberdeen Standard Investments, to:

- Outperform the Notional Performance Benchmark by 2.1% per annum, net of fees, over rolling 5-year periods.
    - The Notional Performance Benchmark is the liability benchmark, scaled to the market value of assets.
- To target a return from the Asset Portfolios (i.e. excluding the LDI Portfolio) that is consistent with the return objective while maintaining the 5-year ex ante volatility of the Asset Portfolios at or below the expected volatility of the Reference Portfolio (37% Aberdeen Diversified Income Fund, 44% UK Commercial Real Estate Lending and 19% UK Investment Grade Corporate Bonds)
- Provide interest rate and inflation sensitivity equivalent to the Liability Benchmark. The Liability Benchmark is 87% of the Scheme's cashflows and are reflective of the 2018 actuarial valuation data discounted on the Technical Provisions discount rate.

Whilst the investment manager retains an element of discretion with regard to the underlying asset classes/types held with the Scheme's investment arrangements, over time the assets are expected to be invested predominantly in UK Investment Grade Credit, Private Credit, Diversified Growth Funds and LDI investments.

When combined with the LDI Portfolio, the investment manager's central expectation is that the Asset Portfolio allocation shown overleaf can deliver sufficient investment returns to deliver the overall return objective of outperforming the Notional Performance Benchmark by 2.1% per annum. The target allocation is shown alongside the actual asset allocation as at 30 June 2020, with the difference reflecting the portfolio being in a state of transition as at this date (given that the private credit allocation is expected to be built up over a period of up to two years).

Note that the Asset Portfolio and LDI Portfolio are considered separately with the allocation between the two portfolios being a function of the level of leverage within the LDI Portfolio.

	Target Allocation (%)	**30 June 2020 Allocation (%)**
Equity	-	-
Diversified Growth Fund	37	49
UK Investment Grade Credit	19	45
Private Credit	44	6

The 30 June 2020 allocation includes the 2013 Charged Account value as at 30 June 2020, given that the investment manager allows for this in portfolio construction considerations and is predicated on the likelihood of the 2013 Charged Account being transferred into the pension scheme following the 2021 Actuarial Valuation.

Fee structure for advisers and managers

Advisers

The Trustee's investment advisers, Aon, are paid for advice received on the basis of the time spent by the adviser. These arrangements recognise the bespoke nature of the advice given, and that no investment decisions have been delegated to the adviser.

Summary of investment management fee arrangements

In consideration for its investment management services, the investment manager receives a fee, payable quarterly in arrears, of the specified per cent at the rates and fee basis as set out below.

The specified per cent for the LDI Portfolio is 0.04% p.a. (based on the average value of the liabilities being hedged within the LDI Portfolio).

The specified per cent for the Asset Portfolio will be the lesser of:

- 0.5% p.a.;
- The Institutional Share Class Fee for In House Funds (see table below); and
- Any fee rate as agreed between the Client and the investment manager from time to time for a given asset class

Fund	Annual Management Charge
Diversified Assets (Diversified Growth / Diversified Income)	0.50% p.a.
UK Investment Grade Corporate Bonds	0.10% p.a.
Private Credit	0.35% p.a.

Name	Signature	Date
Neil C H Tointon Chairman ALTSL	Original Signed by Neil C H Tointon	25th September 2020

Signed for and on behalf of Abbey Life Trust Securities Limited ("ALTSL") as the Trustee of the Abbey Life Assurance Company Limited Staff Pension Scheme

Abbey Life Assurance Company Limited Staff Pension Scheme ("the Scheme")

Appendix B – Additional Voluntary Contribution (AVC) specific policies

This appendix sets out the Trustee's investment policies with regard to the Scheme's AVCs, where they differ from those policies set out with regard to the main Scheme assets.

Environment, Social and Governance

The Trustee is aware of the risks that environmental, social and governance factors, including climate change, pose and how they could negatively impact the value of investments held if not understood and evaluated properly, and these risks are considered when assessing the default arrangement of the AVCs – however, these risks are secondary relative to the main objective of the default arrangement, as set out in the default arrangement SIP.

In setting the AVC section's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance (ESG) factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the asset allocation, when selecting managers, and when monitoring their performance.

Stewardship – Voting and Engagement

The Trustee has delegated to its 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, capital structure, conflicts of interest and ESG considerations. The Trustee will consider the record of the default arrangement with regard to the above, but note the primary objective, as set out in the default arrangement SIP, is the principal consideration when assessing the performance of the appointed investment manager.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the view of the Scheme members and beneficiaries in relation to non-financial matters.

Arrangements with investment managers

In respect of the default arrangement, the specific objective, as set out in the default arrangement SIP, is:

> *to invest the assets held in respect of members of the Scheme for and from whom there is no current investment instruction in an investment vehicle, which has as its aims:*
>
> > *1) as far as possible to preserve capital value; and*
> >
> > *2) to provide a return on investment similar to that which might be achieved on cash deposits in a bank or building society or money market funds.*

The Trustee, in appointing an investment manager, will seek to ensure that the investment strategy aligns with this objective so far as is reasonably practical. The Trustee, however, has limited influence over the manager's investment practices because all assets would be expected to be held in pooled funds.

The Trustee’s view is that the fees paid to the investment manager ensure it is incentivised to provide a service that meets the stated objective of the default arrangement. However, in practice, the investment manager cannot fully align its strategy and decisions to the (potentially conflicting) policies of all of their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

The Trustee is supported in monitoring the default arrangement's investment activity by the Investment Consultant. The Investment Consultant provides triennial reviews to the Trustee that assess the performance and the costs associated with all funds of the various managers in which members are invested in within the AVC section (including the default arrangement).

If the Trustee determines that the appointed manager does not meet the specific objective set out above, and is therefore unsuitable, the Trustee, with the support of the Investment Consultant, will assess the necessary action that needs to be taken (including the selection of an alternative manager for the default arrangement).

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. There is typically no set duration for the appointment of an investment manager as provider of the default arrangement, however, the Trustee selects the provider with the expectation of a longer-term appointment.