Rexel UK Pension Scheme

Statement of Investment Principles

Date prepared: September 2024

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Contents

1. Introduction

1.1 This is the Statement of Investment Principles prepared by the Trustee of the Rexel UK Pension Scheme. This Statement sets down the principles that govern the decisions about investments which enable the Scheme to meet the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by:
  - the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018;
  - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019; and
  - the Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023.

1.2 In preparing this Statement, the Trustee has consulted Rexel UK Limited, the principal employer ("the employer"). In producing this Statement, the Trustee has obtained advice from Barnett Waddingham, the Trustee's Investment Advisor ("the Advisor"). Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3 The Trustee takes responsibility for the appointment and monitoring of the Advisor.

1.4 This Statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates) and Scheme Funding legislation.

1.5 The Trustee will review this Statement at least every three years or if there is a significant change in any of the areas covered by the Statement.

1.6 The Trustee's investment powers are set out under the section "Application of the Fund" in the Definitive Trust Deed & Rules, dated 28 February 2001. This Statement is consistent with those powers.

1.7 The Scheme consists of the defined benefit ("DB") section and the defined contribution ("DC") section. The DB and DC sections of the Scheme were closed to new members and to new accrual with effect from April 2002 and July 2023 respectively and the Rexel Senate Scheme was merged into the Rexel UK Pension Scheme with effect from 22 March 2012.

1.8 The DC Section of the Scheme closed to future contributions from 1 July 2023. The DC section members and their fund holdings invested with Abrdn and LGIM were transferred to the Scottish Widows Master Trust on 29 September 2023.

1.9 On 11 July 2024, the AVC assets and DC only fund holdings that were previously held with Clerical Medical were transferred to the Scottish Widows Master Trust.

1.10 The Trustee has residual DC fund holdings which consist of the following:

- a legacy With-Profits Investment Only policy with Aviva which relates to a historic DC transfer-in of members from the Rexel Senate Scheme; and
- three legacy DB AVC policies with Aviva which represent very small funding holdings.

2. Choosing investments

2.1 The Trustee's process for choosing investments for the DB section is as follows:

- Identify appropriate investment objectives;
- Agree an acceptable level of risk consistent with meeting the objectives set;
- Construct a portfolio of investments that is expected to maximise return (net of all costs), given the maximum level of acceptable risk;
- Identify managers of investment funds who can provide the specific portfolio of investments; and
- Monitor the performance of the investment managers ("the managers") against their respective targets.

2.2 In choosing appropriate investments for the Scheme, the Trustee considers the advice of their Advisor, who they consider to be suitably qualified and experienced for this role.

2.3 The day-to-day management of the Scheme's assets is delegated to the managers. The Scheme's managers are detailed in a separate document, the Summary of Investment Arrangements. The managers are authorised and regulated by the Financial Conduct Authority and are responsible for asset selection and the exercise of voting rights.

2.4 The Trustee reviews the appropriateness of the Scheme's DB section investment strategy on an ongoing basis. This review includes consideration of the continued competence of the managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the DB section investment strategy.

2.5 The remaining DC assets are a very small residual holding in some of the Scheme's former DC funds with LGIM and an investment in the Aviva With Profits Fund. Members are not able to make further contributions into the DC section following the transfer to the Scottish Widows Master Trust.

3. Investment objectives

3.1 The Trustee has determined key investment objectives in light of an analysis of the Scheme's liability profile for the DB section, as well as the constraints the Trustee faces in achieving these objectives.

DB section

3.2 The Trustee's main investment objectives for the DB section are:

- To restore the funding position of the Scheme on an ongoing basis to at least 100% in line with the Recovery Plan;
- To reduce the volatility of the assets versus the liabilities and to generate excess returns over the liabilities over the longer term;
- To ensure that it can meet its obligation to the beneficiaries of the Scheme;
- To pay due regard to the employer's interest in the size and incidence of contribution payments;
- To maintain a low and stable employer contribution rate and to avoid volatility in the employer accounts;
- Subject to the preceding objectives, to maximise the rate of return earned on the assets over the long-term, subject to an acceptable degree of risk; and
- To take account of the long-term risks to the Scheme, including those relating to non-financial factors, when making investment decisions.

DC section

3.3 The majority of DC section assets transferred to the Scottish Widows Master Trust on 29 September 2023. Members are not able to make further contributions to the DC section. The remaining DC assets are in some of the Scheme's former DC funds, and some assets which relate to the DC ex-Senate Scheme Section and are held in the Aviva With Profits Fund.

3.4 The Trustee's main investment objective for the remaining DC section assets is to invest members' accumulated contributions under the Scheme appropriately, considering:

- The risk that the investment return achieved on a member's retirement pot over the member's working life will not keep pace with price and wage inflation;
- The risk that investment market movements in the period immediately prior to retirement may lead to a substantial reduction in the anticipated level of benefits;
- The various methods that members may use to take their benefits from the Scheme.

Additional Voluntary Contributions (AVCs)

3.5 Members of the DB section previously had the opportunity to pay AVCs, which were invested and used to increase pension benefits at retirement or in the event of death. The Trustee establishes the arrangements under which these contributions are invested. The Trustee's objectives are to maximise the value of the members' contributions plus investment returns, within the constraints imposed by the members' choice of investments, and to provide members with a choice of investment.

4. Kinds of investments to be held

4.1 The DB Section is permitted to invest in a wide range of assets, including equities, bonds, cash and alternatives.

4.2 The Trustee monitors from time-to-time the employer related investment content of the portfolio as whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. The Trustee expects only a de-minimis holding in any employer related investment within the portfolio. Typically, this check is carried out annually by the Scheme's auditors.

4.3 The remaining DC assets are a very small residual held in some of the Scheme's former DC funds, and some assets which relate to the DC ex-Senate Scheme Section and are held in the Aviva With Profits Fund

5. The balance between different kinds of investments

5.1 The Scheme invests in assets that are expected to achieve the Scheme's objectives. The Trustee has implemented an investment strategy for the DB section that will seek to achieve real returns via a return-seeking portfolio, whilst maintaining risk reducing elements within the overall portfolio. The Trustee believes that the investment risks arising from the investment strategy are consistent with the overall level of risk being targeted.

5.2 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the DB section will be expected to change as the Scheme's liability profile matures. The specific asset split will alter in line with advice from the Advisor. The allocation between different asset classes is contained within the Scheme's Summary of Investment Arrangements.

5.3 The Trustee considers the merits of both active and passive management for the various elements of the DB section's portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Scheme's Summary of Investment Arrangements.

5.4 The Trustee takes responsibility for any changes in investment structure and asset allocation.

5.5 From time to time, the DB Section may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short-term cashflow requirements or any other unexpected items.

Additional Voluntary Contributions (AVCs) and Defined Contribution ex-Senate Scheme Section

5.6 The remaining members in the DC hold assets within the With Profits Fund with Aviva. Members are not able to make further contributions to the DC section.

5.7 The Trustee agreed that from April 2006, AVC contributions should be invested alongside the DC section assets. The majority of these assets have been transferred to Scottish Widows alongside the other DC section assets.

5.8 The Trustee reviews these arrangements from time to time as needed, having regard to their performance, the objectives and investment advice.

6. Risks

6.1 The Trustee has considered the following risks to the DB section with regard to its investment policy and the Scheme's liabilities. The Trustee has considered ways of managing and monitoring these risks.

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Employer and covenant risk	The risks of the sponsoring employer ceasing to exist, which for reasons of prudence, the Trustee has taken into account when setting the Scheme's investment strategy. This can be difficult to quantify. The Trustee monitors the creditworthiness of the employer and the size of the pension liability relative to the employer's earnings on a regular basis.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.
Asset allocation risk	The asset allocation is detailed in the Scheme's Summary of Investment Arrangements and is monitored on a regular basis by the Trustee.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of cashflow requirements on the investment policy.
Collateral risk	The Scheme has implemented a liability driven investment ("LDI") portfolio, which aims to mitigate some of the risk arising from the liabilities' exposure to interest rate and inflation movements. Due to the use of leverage in the LDI portfolio, there may be times when the LDI manager requires additional funds to be paid into the portfolio. The Scheme holds a portion of its assets in a collateral pool, which can be used to meet such a request for additional funds. The amount held within the collateral pool is monitored on a regular basis.

6.2 The following risks have been considered in the context of both the DB and DC section (to the extent appropriate given the assets remaining in the DC Section).

Investment manager risk	The Trustee monitors the performance of each of the Scheme's managers on a regular basis in addition to having meetings with each manager as necessary. The Trustee has a written agreement with each manager, which contains a number of restrictions on how the manager may operate.
Concentration risk	Each manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Currency risk	The Scheme’s liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).
Governance risk	Each manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these practices and will report on these in the annual Implementation Statement.
ESG/climate risk	The Trustee has considered long-term financial risks to the Scheme and believes that environmental, social and governance (“ESG”) factors, as well as climate risk, are potentially financially material. The Trustee will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme’s investments in order to avoid unexpected losses.

6.3 The Trustee keeps these risks under regular review.

6.4 The degree of investment risk the Trustee is willing to take also depends on the financial position of the Scheme. The Trustee will monitor the financial position of the Scheme and its liability profile, with a view to altering the investment objectives, risk tolerance or return target should there be a significant change in either. It is expected that the appropriate level of investment risk in the DB section will change over time and the investment strategy implemented is designed to evolve to allow for this.

6.5 The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

7. Manager agreements

7.1 The Trustee and the managers have agreed, and will maintain, formal ‘Investment Manager Agreements’ setting out the scope of the manager's activities, their charging basis and other relevant matters.

8. Expected return on investments

8.1 The Trustee has regard to the relative investment return and risks that each asset class is expected to provide. The Trustee is advised by the Advisor on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the managers.

8.2 The Trustee recognises the need to distinguish between nominal and real returns and to make an appropriate allowance for inflation when making decisions and comparisons.

8.3 In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities of the DB section.

8.4 For the DB section Trustee expects the investment strategy to generate a return, over the long-term, above that which would have been achieved had no investment risk been taken within the portfolio; for example, if the Scheme had been invested solely in a portfolio of UK long-dated government debt. It is recognised that, over the short-term, performance may deviate significantly from the long-term target. The expected level of outperformance relative to government debt will move dynamically downwards as the liabilities mature.

8.5 Having established the investment strategy, the Trustee monitors the performance of each manager against an agreed benchmark as frequently as appropriate according to market conditions and the DB section's funding position. The Trustee meets the Scheme's managers as frequently as is appropriate, in order to review performance.

9. Policy on ESG considerations and stewardship

9.1 The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10. Realisation of investments

10.1 The DB members' assets are predominately held in funds that are sufficiently liquid to be realised easily if the Trustee so requires. The assets remaining in the DC section are held in funds which can be realised to provide pension benefits on retirement or earlier on transfer to another pension arrangement.

10.2 The Trustee has delegated the responsibility for buying and selling the underlying investments to the managers. The Trustee has considered the risk of liquidity as referred to above.

10.3 Ultimately, the DB section's investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

11. Policy on arrangements with asset managers

Aligning the investment strategy and decisions of the managers with the Trustee's investment policies

11.1 Prior to appointing a new manager, the Trustee will discuss the manager's benchmark and approach to the management of ESG and climate related risks with the manager and/or the Scheme's Advisor, and consider how they are aligned with the Trustee's own investment aims, beliefs and constraints.

11.2 When appointing a new manager, in addition to considering the manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee will also consider how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own objectives for the part of the portfolio being considered, they may use another manager for the mandate.

11.3 The Trustee carries out a strategy review at least every three years to assess the continuing relevance of the strategy in the context of the Scheme and its aims, beliefs and constraints. The Trustee will monitor the managers' approaches to ESG and climate related risks on an annual basis.

11.4 In the event that a manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated.

11.5 The managers' ESG policies are reviewed in the context of best industry practice and feedback will be provided to the managers from time to time as deemed appropriate.

Incentivising assessments based on medium to long-term, financial and non-financial, considerations

11.6 The Trustee is mindful that ESG factors and climate change may have a long-term impact on the Scheme. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee has acknowledged this in their investment management arrangements.

11.7 When considering the management of objectives for a manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee carries out its assessment over an agreed predetermined rolling timeframe. The Trustee believes the use of rolling timeframes, typically three to five years, is consistent with ensuring the manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

11.8 The Trustee expects the managers to be voting and engaging on behalf of the Scheme's holdings and the Trustee monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the managers in an effort to achieve any short-term targets.

How the method (and time horizon) of the evaluation of the managers' performance and the remuneration for management services are in line with the Trustee's policies

11.9 The Trustee monitors the performance of the managers over medium to long-term time periods that are predetermined and consistent with the Trustee's investment aims, beliefs and constraints.

11.10 The Scheme invests solely in pooled funds. The managers are generally remunerated by the Trustee based on the value of the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall, they receive less. A performance-related fee also applies to the Scheme's investment in the Partners Fund, meaning that the remuneration received by the manager would increase in the event that the Fund's performance exceeded a specified high water mark. Further details of the fee structures for the Scheme's investments are contained in the Scheme's Summary of Investment Arrangements.

11.11 The Trustee believes that this fee structure enables the managers to focus on long-term performance without worrying about short-term dips in performance significantly affecting their revenue.

11.12 The Trustee asks the Scheme's Advisor to assess if the management fee is in line with the market when a new manager is selected and the appropriateness of the management charges are considered from time to time as appropriate.

How the Trustee monitors portfolio turnover costs incurred by the managers and how it defines and monitors targeted portfolio turnover or turnover range

11.13 The Trustee acknowledges that portfolio turnover costs can impact on the performance of investments. However, equally the Trustee believes that active managers can add value through turnover of investments.

11.14 When underperformance is identified, the level of turnover may be investigated with the manager concerned if it is felt this may have been a significant contributor to the underperformance. In these cases, the Trustee defines the target turnover with respect to market conditions and peer group practices.

The duration of the arrangements with the managers

11.15 The majority of the Scheme's investments are held in open-ended pooled funds and, as such, there are no pre-agreed timeframes for investment. The Scheme has also committed to an investment in a closed-ended fund with a three-year investment period and a six-year term. In general, the Trustee's approach to investing means that investments are expected to be held over a period of three years or more.

11.16 The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review, the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

12. Agreement

12.1 The Trustee monitors compliance with this Statement on a regular basis. Any change to this Statement will only be made after having obtained the written advice of someone who the Trustee reasonably believes to be qualified by their practical experience of financial matters and to have the appropriate knowledge, ability and experience of the management of pension scheme investments.

12.2 This Statement was agreed by the Trustee and replaces any previous Statements. The Statement will be published on a publicly accessible website.

Appendix 1 Note on investment policy of the DC section in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Trustee's main investment objective for the remaining DC section assets is to invest members' accumulated contributions under the Scheme appropriately, considering:

- The risk that the investment return achieved on a member's retirement pot over the member's working life will not keep pace with price and wage inflation;
- The risk that investment market movements in the period immediately prior to retirement may lead to a substantial reduction in the anticipated level of benefits;
- The risk that relative market movements in the period immediately prior to retirement may lead to a substantial reduction in the anticipated cash lump sum benefit;
- The various methods that members may use to take their benefits from the Scheme; and
- Long-term risks, including those relating to non-financial factors, when making investment decisions which will impact members' retirement pots.

The Trustee is responsible for the design of the default investment option and for choosing which investment options to make available to members.

The remaining assets within the DC section are invested in the Aviva With Profits section (bar a very small amount of residual assets following the transfer to the Scottish Widows Master Trust, which are immaterial in the context of the Scheme). Members are not directly able to choose how these assets are invested.

2. Default option

All remaining assets within the DC section are invested in the Aviva With Profits section (except for the residual assets with LGIM), making this the effective default arrangement. The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings. However, the Trustee accepts that given the nature of the Aviva With Profits arrangement there is limited scope for them to influence the Fund's investment process and asset allocation.

The statements made in the main body of this Statement of Investment Principles also apply to the default arrangement.

Policy on investing in illiquid assets within the default arrangement

The effective default arrangement for the Scheme is the Aviva With Profits Fund, and so the default arrangement does not currently include direct investment in illiquid assets such as private equity, infrastructure and real estate. The asset allocation within the With Profits Fund is delegated to Aviva.

The Trustee has no immediate plans to alter or introduce illiquid assets to the strategy. The Trustee is of the opinion that given that the Scheme's remaining assets are held in the Aviva With Profits Fund, and the nature of that arrangement, introducing such an option is unlikely to add value for members.

The Trustee will review this policy periodically and may consider introducing some allocation to illiquid assets in future if changes in circumstances, member demographics and/or developments in the investment landscape make this appropriate.

Appendix 2 Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Policy on ESG considerations

The Trustee's view on the financial materiality of ESG considerations

The Trustee has considered the financial risks to the Scheme and believes that environmental, social and governance ("ESG") issues, including but not limited to climate change, are potentially financially material. Therefore, the Trustee has a policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments.

The Trustee believes that ESG factors will potentially be financially material for the Scheme until the Scheme's life comes to an end. The extent to which these factors will be financially material will depend upon the lifetime of the Scheme.

The Trustee has received training from its Advisor on ESG factors. The Trustee considered the research findings presented at this training to form their views on the financial materiality of ESG factors as they apply to the Scheme's current investments. Based on their discussions, the Trustee believes that these factors have the potential to impact the risk and/or return profile of the Scheme's investments. However, the Trustee appreciates that this impact will vary between different asset classes.

Assessment and monitoring of investments

The Trustee has elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their Advisor. As an investor in pooled funds, the Trustee delegates the consideration of all financially material factors in relation to determining the underlying holdings within the pooled funds, including ESG factors, to the Scheme's managers as part of their day-to-day management.

The Trustee, and the managers of the underlying funds, take ESG factors (including climate change risks) into account in their decisions in relation to the selection, retention and realisation of investments.

Selection of investments

When selecting new investments, the Trustee may request information on ESG integration and stewardship credentials as part of the selection process. However, a manager's excellence in this area will not necessarily take precedence over other factors, including (but not limited to) historical performance or fees.

Retention of investments

Each of the Scheme's managers has its own ESG policy, ESG integration process and ESG resources as part of its wider management processes and capability.

The Trustee will monitor ESG considerations on an ongoing basis by seeking information on the responsible investing policies and practices of the managers.

From time to time, the Trustee may ask the Scheme's managers to attend meetings and provide updates on the funds, which the Trustee may request to include an update on ESG considerations. The Trustee recognises that they will be reliant on the information presented by the managers and their Advisor regarding the extent to which a manager allows for ESG and climate risk in making their investment decisions.

Realisation of investments

The Trustee may request information from the managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee will engage with the managers regarding issues believed to have a material impact (both positive and negative) on future returns. If any significant negative ESG integration related issues are identified for a fund or a manager, the Trustee may choose to replace them. However, as per the appointment of funds and managers, the manager's shortcomings in this area will not necessarily be seen as sufficient reason for replacement and will not necessarily take precedence over consideration of other factors. The Trustee will take ESG factors into account as part of its investment process and consider them as part of ongoing reviews of the Scheme's investments.

In order to establish and maintain an investment portfolio that incorporates ESG factors, the Trustee will:

- Continue to receive training to understand the key issues around ESG factors and subsequent developments;
- Receive an ESG dashboard for each manager on an annual basis, which summarises the key metrics around how ESG is incorporated into each investment mandate;
- Assess, as part of their regular review of managers, the managers' approaches to ESG issues within each mandate; and
- Consider a manager's approach to ESG as part of any new manager selection exercises.

Policy on non-financial matters

The Trustee does not currently take into account the Scheme members' and beneficiaries' views on ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries in the selection, retention and realisation of investments.

The Trustee will review its policy on whether to take account of non-financial matters periodically.

2. Policy on stewardship

The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

As an investor in pooled funds, the Trustee currently adopts a policy of delegating the exercising of the rights (including voting rights) attached to the Scheme's investments to the managers. In doing so, the Trustee expects that the managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee also delegates the undertaking of engagement activities to the managers, which includes entering into discussions with company management in an attempt to influence behaviour. When delegating investment decision making to the managers, each of the managers has an agreed benchmark which they are expected to either follow or outperform. The manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund. The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks. Therefore, the Trustee expects their active managers to assess and monitor developments in the capital structure for each of the companies in which the manager invests. This should include monitoring developments in ESG-related issues, and in particular climate risk, across the relevant parts of the capital structure. The Trustee recognises that monitoring the capital structure of the assets held is less relevant for passive managers. However, the Trustee will also monitor developments in ESG, climate risk and related issues for their passive managers.

The Scheme's managers are granted full discretion over whether or not to invest in the employer's business. Through their consultation with the employer when setting this Statement of Investment Principles, the Trustee has made the employer aware of its policy on ESG and climate related risks, how it intends to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their Advisor, monitor and review the information provided by the managers. Where possible and appropriate, the Trustee will engage with their managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

If the Trustee finds that any manager is not engaging with the companies in which the manager invests in a suitable manner, or is not taking sufficient account of ESG matters in its exercising of voting rights, it will engage with that manager with the help of the Scheme's Advisor.

Conflicts policy

The Scheme's Advisor, Barnett Waddingham, is independent and no arm of its business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the manager recommendations they make are free from conflict of interest.

The Trustee expects all of the Scheme's managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so, the Trustee believes it has appropriately managed the potential for conflicts of interest in the appointment of the managers and conflicts of interest between the Trustee and the manager and the companies in which the manager invests.

DB section - Accounting for financially material considerations in the selection, retention and realisation of investments

The Trustee's views on how ESG factors are taken into account for the Scheme's DB investments are set out below.

Target-return funds

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's target-return fund managers. The investment process for each target-return fund manager should take ESG into account in the selection, retention and realisation of investments. The Trustee also supports engagement activities and, where relevant, the exercise of rights attaching to the investments by the Scheme's target-return fund managers. However, the incorporation of ESG issues, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Credit

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's credit holdings. The Trustee recognises that fixed income assets do not include voting rights, however, they support engagement with companies by their managers. However, the incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Illiquid assets

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Scheme's illiquid holdings. The Trustee recognises that the illiquids asset class can comprise a wide range of different underlying assets and therefore, in some cases, there will be less scope for ESG considerations. However, the Trustee supports engagement with companies by their managers. The incorporation of ESG issues and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns within these asset classes because of the nature of the instruments used within the LDI funds and the fact that money market investments are short-term.

DC section - Accounting for financially material considerations in the selection, retention and realisation of investments

The Trustee's views on how ESG factors are taken into account for the Scheme's DC investments are set out below. The very small residual within the former LGIM DC funds has been excluded on grounds of materiality.

Aviva With Profits Fund

The Trustee believes that ESG issues could be financially material to the risk-adjusted returns achieved by the Aviva With Profits Fund. However, the Trustee accepts that given the nature of this arrangement there is limited scope for them to influence the Fund's investment process. The default will nonetheless be reviewed every three years

Implementation Statement

The Trustee has instructed its Advisor to review how ESG issues are taken into account for each of the Scheme's DB section mandates and to report back against their beliefs so that this can form part of the Trustee's annual Implementation Statement.