

Hertz (UK) 1972 Pension Plan

Statement of Investment Principles

1. Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees of the Hertz (UK) 1972 Pension Plan (the "Trustees" and the "Plan", respectively). This statement sets out the principles which govern the decisions about investments that enable the Plan to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - 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.
- 1.2. In preparing this statement the Trustees have consulted Hertz (UK) Limited (the "Principal Employer", and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees 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.
- 1.5. The investment powers of the Trustees are set out in Clause 29 of the Supplementary Trust Deed & Rules dated 4 February 1997. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, whom they consider to be suitably qualified and experienced for this role.
- 2.2. The day-to-day management of the Plan's assets is delegated to one or more investment managers. The Plan's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights, where applicable.
- 2.3. The Trustees review the appropriateness of the Plan's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustees have discussed key investment objectives in light of an analysis of the Plan's liability profile as well as the constraints the Trustees face in achieving these objectives. As a result, the Trustees' main investment objectives are:
 - to ensure that the Plan can meet the members' entitlements under the Trust Deed and Rules as they fall due;

- to achieve a long-term positive real return;
 - to manage the expected volatility of the returns achieved in order to control the level of volatility in the Plan's required contribution levels;
 - to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with the participating employer, the cost of benefits which the Plan provides;
 - to reduce the risk of the assets failing to meet the liabilities over the long term;
 - to minimise the long-term costs of the Plan by targeting a suitable level of return on the assets whilst having regard to the above objectives.
- 3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Plan's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Plan's objectives as best as possible.

4. Kinds of investments to be held

- 4.1. The Plan is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.
- 4.2. The Plan invests in Liability Driven Investment ("LDI") funds. The objective of these funds is that their value moves closely in line with the value of the Plan's liabilities. Their use of derivatives allows the Plan to more accurately match the interest rate and inflation sensitivity of the liabilities than would be possible otherwise, reducing the overall level of investment risk taken. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio and/or for the purposes of efficient portfolio management.
- 4.3. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Plan's auditors.

5. The balance between different kinds of investments

- 5.1. The Plan invests in assets that are expected to achieve the Plan's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.
- 5.3. From time to time the Plan may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.
- 5.4. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and therefore the Plan's asset allocation will be expected to change as the Plan's liability profile matures.

6. Risks

- 6.1. The Trustees have considered the following risks for the Plan with regard to its investment policy and the Plan's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees 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 Plan's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are 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 Plan's funding basis.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The Trustees monitor the performance of each of the Plan's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have considered long-term financial risks to the Plan and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Plan's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Plan invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Plan's cashflow requirements. The Plan's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Plan's liabilities are denominated in sterling. The Plan may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustees consider changes to the internal controls and processes of each of the investment managers as part of regular monitoring.

7. Expected return on investments

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. In considering the expected return from investments, the Trustees recognise that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.
- 7.4. Having established the investment strategy, the Trustees monitor the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Plan's funding position. The Trustees meet the Plan's investment managers as frequently as is appropriate in order to review performance.

8. Realisation of investments

- 8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.
- 8.2. Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustees are 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 Plan accounts.

9. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

- 9.1. The Trustees have set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

- 10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with the Plan's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.
- 10.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Plan's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

- 10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated. The investment managers have been informed of this by the Trustees.
- 10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

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

- 10.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise 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 Trustees acknowledge this in their investment management arrangements.
- 10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment 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 Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.
- 10.8. The Trustees expect investment managers to be voting and engaging on behalf of the Plan's holdings and the Plan monitors this activity within the Implementation Statement in the Plan's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

- 10.9. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.
- 10.10. The Plan invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.
- 10.11. The Trustees believe that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.
- 10.12. The Trustees ask the Plan's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

- 10.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The

Trustees acknowledge that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

- 10.15. For the open-ended pooled funds in which the Plan invests, there are no predetermined terms of agreement with the investment managers.
- 10.16. The suitability of the Plan's asset allocation and its ongoing alignment with the Trustees 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.

11. Agreement

- 11.1. This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the actuary and the Plan's auditor upon request.

Appendix 1 Note on investment policy of the Plan as at 4 May 2021 in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have appointed the following fund managers to carry out the day-to-day investment of the fund:

- Baillie Gifford Life Limited ("Baillie Gifford")
- State Street Global Advisors ("SSgA")
- CQS Investment Management ("CQS")
- Insight Investment ("Insight")

Baillie Gifford, SSgA and Insight are authorised and regulated by the Financial Conduct Authority. CQS is regulated by the Central Bank of Ireland.

The Trustees have appointed Barnett Waddingham LLP to advise on investment matters in addition to advice received from the fund managers on suitability of investments.

The fee arrangements with the fund managers are recorded separately:

Barnett Waddingham is remunerated on a time-cost basis.

The Trustees have an AVC contract with Aviva for the receipt of members' Additional Voluntary Contributions. The arrangement is reviewed from time to time.

Kinds of investments to be held

The Trustees have considered all asset classes and have gained exposure to the following asset classes:

- UK equities;
- Overseas equities;
- LDI Funds - These funds make use of derivatives in accordance with principle 4.2;
- Cash;
- Corporate bonds;
- Alternatives.

The balance between different kinds of investment and rebalancing

The following asset allocation has been agreed after considering the Plan's liability profile, funding position, expected return of the various asset classes and the need for diversification.

The Protection portfolio is designed to hedge approximately 95% of the interest rate and inflation expectation exposure of the liabilities on the Technical Provisions basis.

The amount that is required to be invested in each fund to maintain these hedge ratios will vary over time as the value of the liabilities changes and the allocations within the Protection portfolio will be allowed to vary accordingly.

Portfolio	Asset class		Allocation (%)	
Growth				40
	Equities			10
		UK ESG Screened	4.5	
		North America (50% hedged) ESG Screened	1.6	
		Europe (ex-UK) (50% hedged) ESG Screened	1.6	
		Japan (50% hedged) ESG Screened	0.8	
		Asia Pacific (ex-Japan) (50% hedged) ESG Screened	0.8	
		Emerging Markets ESG Screened	0.5	
	DGF			15
		Baillie Gifford	15	
	Multi Asset Credit			15
		CQS	15	
Protection				60
	LDI			60
		Nominal LDI		
		Real LDI		
		Partially Funded Gilts 2041-2050		
		Partially Funded Gilts 2051-2060		
		Partially Funded Gilts 2061-2070		
		Partially Funded Index-Linked Gilts 2031-2040		
		Partially Funded Index-Linked Gilts 2041-2050		

		Partially Funded Index-Linked Gilts 2051-2060			
		Partially Funded Index-Linked Gilts 2061-2070			
		Buy & Maintain Bond 2021-2025			
		Buy & Maintain Bond 2026-2030			
		Buy & Maintain Bond 2031-2035			
		Sterling Liquidity Plus Fund			
	Bonds				
		UK ESG Screened corporate bonds			
Total			100.0	100.0	100.0

The allocations within the Protection portfolio will be allowed to vary in order to maintain the target hedge ratios as set out above.

The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Benchmark allocation	Benchmark	Objective
Baillie Gifford			
Diversified Growth Fund	15%	UK base rate	To outperform its benchmark by at least 3.5% p.a. (net of fees) over rolling five year periods with an annual volatility of less than 10%
SSgA			
UK ESG Screened Index Equity sub-Fund	4.5%	FTSE All-Share Index ex Controversies ex CW Index	The Fund aims to track the return of its benchmark
North America (50% hedged) ESG Screened Index Equity Sub-Fund	1.6%	FTSE World North America ex Controversies ex CW Index	The Fund aims to track the return of its benchmark
European ex UK (50% hedged) ESG Screened Index Equity Sub-Fund	1.6%	FTSE Developed Europe ex UK ex Controversies ex CW Index	The Fund aims to track the return of its benchmark
Japan (50% hedged) ESG Screened Index Equity Sub-Fund	0.8%	FTSE Japan ex Controversies ex CW Index	The Fund aims to track the return of its benchmark
Asia Pacific ex Japan (50% hedged) ESG Screened Index Equity Sub-Fund	0.8%	FTSE Developed Asia Pacific ex Japan ex Controversies ex CW Index	The Fund aims to track the return of its benchmark
Emerging Markets ESG Screened Index Equity Sub-Fund	0.5%	FTSE Emerging ex Controversies ex CW Index	The Fund aims to track the return of its benchmark
Sterling Non-Gilts Bond All Stocks ESG Screened Index Sub-Fund	*	Barclays Sterling Aggregate 100 mm Non Gilts Index	The Fund aims to track the return of its benchmark
CQS			
Credit Multi Asset Fund	15%	1 month GBP London Interbank Offered Rate (LIBOR)	To outperform its benchmark by 4% p.a. net of fees
Insight			

LDI Enhanced Selection Nominal and Real Funds	*	A set of cash flows reflecting the liabilities of a typical pension scheme discounted using swap interest rates and swap inflation or inflated using gilt inflation and discounted using gilt interest rates	The Funds aim to hedge a subset of the liabilities of a typical UK pension scheme with respect to changes in interest rates (nominal and real funds) and inflation (real funds only)
Partially Funded Gilts 2041-2050 Partially Funded Gilts 2051-2060 Partially Funded Gilts 2061-2070	*	Custom benchmark	To provide leveraged exposure to gilts at the specified durations as part of the liability-hedging portfolio
Partially Funded Index-Linked Gilts 2031-2040 Partially Funded Index-Linked Gilts 2041-2050 Partially Funded Index-Linked Gilts 2051-2060 Partially Funded Index-Linked Gilts 2061-2070	*	Custom benchmark	To provide leveraged exposure to index-linked gilts at the specified durations as part of the liability-hedging portfolio
Buy & Maintain Bond 2021-2025 Buy & Maintain Bond 2026-2030 Buy & Maintain Bond 2031-2035	*	Custom benchmark	To invest in assets with a focus on credit quality and avoidance of default in order to pay out coupon and principal proceeds, offering a predictable stream of cash flows.
GBP Liquidity Plus Holding Fund	*	3 month LIBID	The Fund aims to provide investors with stability of capital and income through investment in short-term fixed income and variable rate securities.

* the allocations within the Protection portfolio will be allowed to vary in order to maintain the target hedge ratios as set out above.

The performance of fund managers will be monitored as frequently as the Trustees consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Plan has a strategic asset allocation as set out in the table above. The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

The Plan rebalances the assets held in the SSgA Equities portfolio using the control ranges detailed in the following table on a regular basis. (The Sterling Non-Gilts Bond All Stocks ESG Screened Index Sub-Fund is held in a separate account and is not subject to rebalancing).

SSgA fund	Sub-Allocation	Control Range
UK ESG Screened Index Equity sub-Fund	45.0%	+/- 2.0%
North America (50% hedged) ESG Screened Index Equity Sub-Fund	16.3%	+/- 1.0%
European ex UK (50% hedged) ESG Screened Index Equity Sub-Fund	16.3%	+/- 1.0%
Japan (50% hedged) ESG Screened Index Equity Sub-Fund	8.3%	+/- 0.5%
Asia Pacific ex Japan (50% hedged) ESG Screened Index Equity Sub-Fund	8.3%	+/- 0.5%
Emerging Markets ESG Screened Index Equity Sub-Fund	5.8%	+/- 0.5%

Investment of new money

The Trustees will decide where to invest new money on a case-by-case basis, taking into account the benchmark allocations and target hedge ratios among other factors as appropriate.

Realisation of investments

Part of any annual contribution paid by the Principal Employer is used to meet the Plan's short term cashflow requirements with an additional amount equal to one month's cashflow requirements retained as a buffer. The Trustees will decide where to invest any surplus thereafter on a case-by-case basis, taking into account the benchmark allocations and target hedge ratios among other factors as appropriate.

For the remaining part of the year until the next annual contribution, the Plan's cashflow requirements will be met through disinvestments. The Trustees will decide where to disinvest any cash from on a case-by-case basis, taking into account the benchmark allocations and target hedge ratios among other factors as appropriate.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, and non-financial matters

Financially Material Considerations

The Trustees held a training session in 2019 with their investment advisors to consider the financial materiality of environmental, social and governance issues, including climate change (referred to together as “ESG issues”).

The Trustees believe that Environmental, Social and Governance (“ESG”) factors, including climate change (referred to together as “ESG issues”), are financially material – that is, they have the potential to impact the value of the Plan’s investments. The Trustees appreciate that the method of incorporating ESG in the investment strategy and process may differ between asset classes.

The Trustees are also cognisant of the different investment timeframes that may apply to investments. The Trustees believe that ESG issues, including climate change issues, may have a greater impact over a longer timeframe, compared to investments that are held for a shorter timeframe. The Trustees believe that these issues will be financially material over the length of time during which benefits will be provided by the Plan. The Trustees have elected to invest the Plan’s assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take these factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment managers’ ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the policies and practices of the investment managers.

Realisation of investments: The Trustees will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Plan’s investments.

Through their investment consultant the Trustees will request that all of the Plan’s investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

A summary of the Trustees’ views for each asset class in which the Plan invests is outlined below.

Passive equities

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan’s passive equities. The Trustees accept that fund managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies and by exercising voting rights. However, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.

Multi-asset funds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's multi-asset fund manager. The investment process for any multi-asset fund manager used by the Plan should take ESG issues into account in the selection, retention and realisation of investments. The Trustees also support engagement activities and, where relevant, the exercise of rights attaching the investments by the Plan's multi-asset fund manager. 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.

Multi-asset credit funds

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's multi-asset credit manager. The investment process for the multi-asset credit manager should take ESG into account when selecting holdings. The Trustees also support engagement activities, although they appreciate that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

Corporate bonds

The Trustees hold both passively managed and actively managed corporate bond funds.

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's passive corporate bonds. The Trustees recognise that fixed income assets do not include voting rights and that the fund managers must invest in line with the specified index and, therefore, may not be able to disinvest if they have concerns relating to ESG. The Trustees therefore require that the fund manager takes into account ESG considerations by engaging with companies. However, the engagement activities should be consistent with, and proportionate to, the rest of the investment process.

The Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Plan's actively managed corporate bonds. The investment process should take ESG into account when selecting holdings. The Trustees also support engagement activities, although they appreciate that fixed income assets do not typically provide voting rights. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market

The Trustees believe there is limited scope for the consideration of ESG issues to improve risk-adjusted returns in 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.

It is worth noting that when transacting in LDI and money market funds, the Trustees require due diligence is undertaken to assess the credit-worthiness of the counterparty both at the start of and throughout any investment, whilst at the same time looking to achieve best execution. The Trustees believe this is more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

The Trustees are comfortable that all of their current investment managers have a suitable approach to taking ESG into account in the management of the respective funds in each particular asset class, and within applicable guidelines and restrictions. This position is monitored periodically, at least annually, and the Trustees views on these issues will be taken into account when appointing and reviewing fund managers in future. Before considering any new mandate, the Trustees will consider whether the manager is a signatory to the United Nations supported Principles for Responsible Investment (PRI).

The Trustees have instructed their investment advisors, Barnett Waddingham, to incorporate ESG issues into their ongoing monitoring of the fund managers.

Policy on the exercise of voting rights

Stewardship encompasses the exercise of rights (including voting rights) attaching to the Plan's investments, and the engagement by and with investment managers.

The Plan currently invests in pooled investment funds only. The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the relevant fund managers. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' 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.

Managers are expected to exercise voting powers with the objective of preserving and enhancing long term shareholder value. The Trustees also expect managers to engage with companies in relation to ESG matters where appropriate.

In addition to the exercise of voting rights, managers are expected to engage, where appropriate, with key stakeholders (which may include issuers of debt or equity, corporate management, regulators and governance bodies) relating to their investments in order to improve corporate behaviours and governance, improve performance and social and environmental impact and to mitigate financial risks.

The Trustees are comfortable with the current fund managers' strategies and processes for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment managers have discretion over where in an investee company's capital structure they invest (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise 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.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Plan or as part of the pooled fund in which the Plan holds units.

The Trustees also consider it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Plan's investment consultant. The Trustees periodically review engagement activity undertaken by their investment managers

to ensure that the policies outlined above are being met and may explore these issues with their investment managers as part of their ongoing monitoring.

Should an investment manager be failing in these respects, this should be captured in the Plan's regular performance monitoring.

The Plan's investment managers are not subject to constraints on whether or not to invest in the Principal Employer's business or those of associated companies. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Plan's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council and expect the Plan's investment managers to have corporate governance policies in place which comply with these principles, or to explain why they do not. The Trustees will review the signatory status of all of their managers following anticipated revisions to the UK Stewardship Code in 2019.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment 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.

Policy for taking into account non-financial matters

The Trustees do not consider any non-financial matters, such as members' ethical views, when constructing the investment strategy and/or when selecting or reviewing fund managers.