The GKN Group Pension Scheme (No.3)

Statement of Investment Principles

November 2024

Introduction

This document is the Statement of Investment Principles (the ‘Statement’) for the GKN Group Pension Scheme (No.3) (the 'Scheme'). It has been drawn up by GKN3 Trustee 2024 Limited (the ‘Trustee’).

The Statement sets out the high-level objectives, principles and policies governing the investment decisions of the Trustee.

The Statement is also a legal requirement of the Pensions Acts 1995 and 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (collectively referred to as the ‘Pensions Acts’).

In preparing this document the Trustee has taken into account the requirements of the Pensions Acts. In addition, this Statement is designed to fulfil the spirit of any relevant best practice guidance published by the Pensions Regulator. The principles set out in this Statement are also consistent with the Trustee’s Statement of Funding Principles.

Governance arrangements

The Trustee has ultimate responsibility for the management of the investment arrangements of the Scheme and its assets. In discharging these responsibilities, the Trustee has established clear Investment Objectives setting out what they are aiming to achieve. The Investment Objectives relate to the overall solvency position of the Scheme and are explained in more detail in the next section of this Statement. The solvency position is an assessment of the amount of assets which have been put aside to meet the liabilities of the Scheme.

The Trustee focus on setting the high level Investment Objectives and on deciding what types of investments are acceptable for the Scheme. They then delegate day-to-day responsibility for all investment decisions to the Fiduciary Manager and underlying Investment Managers. The Trustee considers that the Fiduciary Manager and the underlying Investment Managers are best placed to invest the assets on their behalf within the remit of their agreement.

The Trustee recognises that the arrangements with the Fiduciary Manager and underlying Investment Managers is important to ensure that interests are aligned. In particular, the

Trustee seeks to ensure that the Fiduciary Manager and underlying Investment Managers are incentivised to operate in a manner that generates the best long-term results for the Scheme and its beneficiaries.

The Trustee shares the policies, as set out in this Statement, with the Fiduciary Manager and expect their approach to align with the Trustee’s policies. The Trustee delegates the ongoing monitoring of the Scheme to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme’s investments to consider the extent to which the investment strategy and decisions of the other investment managers are aligned with the investment objectives of the Scheme.

The Trustee receives quarterly reports and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Strategic Investment Adviser, Aon, will review the continued appropriateness of the portfolio in meeting the Trustee's long-term objectives on a regular basis.

Other parties involved

There are a number of parties involved in the Scheme’s investment arrangements, namely:

- Trustee
- Sponsor
- Scheme Strategic Investment Adviser
- Scheme Actuary
- Fiduciary Manager
- Investment Managers (both underlying Investment Managers selected by the Fiduciary Manager and other external Investment Managers)
- Providers of direct investments
- Custodian
- Performance measurer
- Third party Investment Adviser Monitor

Responsibility and knowledge

The Trustee receives advice from the Investment Adviser but has ultimate responsibility for the management of the Scheme and its assets. The Trustee has agreed the overall investment objective, permissible assets/investment strategies/derivatives and guidelines for the assets. The Trustee delegates responsibility to the Fiduciary Manager and the underlying investment managers for the assets under their management subject to the terms of their agreement.

The Trustee confirms that all parties to whom they delegate responsibility have the appropriate knowledge and experience required to take on this role. The Trustee expects each party to carry out the duties so delegated with a view to giving effect to the principles in this Statement, so far as is reasonably practical.

Objectives

The Trustee's primary objective is to provide sufficient assets to pay benefits as they fall due. The Trustee has set an objective for the Scheme's investments in order to target this primary objective, which is called the 'Investment Objective'.

Investment Objectives

The Investment Objective is a quantifiable statement comprising a return objective and risk statement:

- The **return objective** states the level of return on the assets relative to the liabilities that the Trustee is targeting
- The **risk statement** defines the level of confidence the Trustee has in the funding ratio (i.e. the ratio of assets to liabilities) being above a certain level over a certain defined time period

Return Objective

The Trustee aims to achieve a return on the Scheme's investable assets of 1.8% p.a. in excess of the return on the Liability Benchmark. The Liability Benchmark is an estimate of the change in the net present value of the projected pension cashflows for the Scheme.

Risk Statement

The Trustee expects that the active risk within the Portfolio will generally be below 8% per annum. Active risk is the risk that the Scheme's investments do not perform in line with the Liability Benchmark. It is defined as the standard deviation of the Investment Portfolio return relative to the return of the Liability Benchmark.

Process for setting the Investment Objectives

The Return Objective and Risk Statement have been set by the Trustee on the basis of an assessment of the Scheme's current position and consideration of future uncertain events. This involved looking at the Trustee's overall objectives for the Scheme, the Statement of Funding Principles and Scheme's financial position (including the strength of their sponsoring employer's covenant). In addition to qualitative assessments the Trustee also used asset-liability modelling techniques. As part of this exercise a number of assumptions were made in relation to the level and timing of future contributions.

Risk management policies

The Trustee recognises a number of risks are involved in the investment of the Scheme's assets. It is the Trustee's policy to regularly monitor the risks affecting these investments, and to manage them where possible so as to avoid the accumulation of excessive risk exposure. In managing these risks the Trustee has regard to their Investment Objectives. The Trustee will work with the Strategic Investment Adviser and Fiduciary Manager to promptly identify any material risks, to consider how best they should be managed, to implement a solution for managing these risks and then to decide how they should be monitored in the future. The Trustee will review their risk management policy on a regular basis.

In addition to the policies set out in this statement, the Trustee has standalone policies in the following areas:

- LDI policy, detailing the Trustee policies in relation to hedging targets/approach, liability cashflow benchmarks as well as collateral and leverage tolerances.
- Responsible Investment, detailing the Trustee Responsible Investment beliefs and principles, and to detail the approach it is taking to fulfil its commitments.

Key risks affecting the scheme

The Trustee's key risk to the Scheme is that the value of assets is inadequate relative to the value of the liabilities. Ultimately, this could lead to there being insufficient assets to secure all benefits. This is called solvency risk.

The Trustee acknowledges that there are a number of individual risk factors which have the potential to contribute to solvency risk. 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. The Strategic Investment Adviser helps manage these risks and also assists by providing risk analysis using quantitative modelling techniques.

Other risk factors

There are a number of other risks affecting the Scheme. Further information on these main risk factors are described in Appendix A, along with a summary of the Trustee's policy on how each risk should be managed and measured.

General investment policies

The Trustee has set a number of investment policies in relation to their investments. These cover:

- Types of investments considered
- Balance between investment types
- Expected return on investments
- Realisation of investments
- Use of derivatives
- Responsible Investment & Stewardship, ensuring compliance with the Pensions Acts
- Fee basis for service providers

Types of investments considered

The Scheme's assets are split between the portfolios and sub portfolios detailed below. Responsibility for the management of the sub-portfolios and the balance between them is delegated by the Trustee to the Fiduciary Manager.

The full range of assets, detailed targets and restrictions are agreed between the Trustee and the fiduciary manager and may change over time. These are recorded in the legal agreement between the Trustee and Fiduciary Manager.

LDI Portfolio:

The purpose of these assets is to reduce the risk that the funding position deteriorates as a result of changes in the value of the liabilities due to movements in long-term interest rates and inflation expectations.

This requires an asset portfolio which seeks to broadly match an agreed portion of the interest rate and inflation sensitivities of the Liability Benchmark. The assets are invested in a mixture of cash, physical gilts and leveraged gilts.

Investment Grade Credit assets (part of the Credit Sub-Portfolio) also contribute to the interest rate sensitivity.

Credit Sub-Portfolio:

The Credit Sub-Portfolio will be built up using a market-based trigger framework which has been pre-agreed with the Trustee. The purpose of these assets is to generate cashflows that are expected to meet members' benefits as they fall due.

The portfolio largely consists of high quality bonds, including those issued by governments, government related entities and corporates, whose return, when held-to-maturity, is known subject to default experience.

Liquid Alternative Credit Portfolio:

The portfolio includes an allocation to higher yielding bond-type assets such as asset backed securities, high-yield credit and emerging market debt to help to deliver additional returns for the portfolio. Performance of these assets is driven primarily by the exposure to credit related securities and the skill of the third-party manager(s) to avoid defaults.

Diversified Growth Portfolio:

The purpose of these assets is to generate consistent, absolute returns while managing downside risks and reducing the chance of large losses in stress situations.

These assets are invested in a wide range of instruments to create a highly diversified portfolio, with positions including:

'Manager Skill' investments

- Investments with third party investment managers within the Cardano pooled funds providing access to specialised investment strategies

- The portfolio provides access to a range of investment managers with a broad range of strategies, each expected to outperform at varying times depending on market conditions

'Market Exposure' investments

- These provide a diversified set of exposures where performance is mainly dependent on the economic outlook.
- They include, but are not limited to, Equities and Equity Options, Government Bonds, Inflation Swaps, Commodities, High Yield Bonds and Emerging Market Bonds.
- The positions are typically accessed via pooled funds or through derivative instruments to reduce costs, increase liquidity and support efficient portfolio management.

These positions are dynamically managed meaning they are frequently adjusted to reflect the prevailing market conditions. The aim is to take advantage of opportunities as they arise and to guard against risks that may materialise.

The balance between investment types

The Trustee has provided the fiduciary manager with guidelines setting out permissible ranges for each kind of investment. The fiduciary manager adjust the balance of investments in response to evolving market conditions and ensures that:

- It stays within the guidelines;
- It is appropriate to achieving the Investment Objective over the long term;
- There is sufficient liquidity to meet cashflow requirements; and
- There is sufficient collateral available to manage the collateral risk of the derivative positions.

The expected return on investments

The Trustee's policy in relation to expected return on investments is to invest in the assets which they believe will, over an appropriate time horizon and having a regard to the need to manage risk appropriately, achieve their respective Return Objective. When setting the investment guidelines, the Trustee has considered the expected return, and associated risk for each investment type.

The Trustee monitors the return on the different investment types on a regular basis using reporting provided by the Fiduciary Manager and on the basis of advice from the Strategic Investment Adviser. In the case of severe underperformance, the Trustee expects the Fiduciary Manager to review the investments in light of the prevailing economic conditions. The Strategic Investment Adviser may also be asked for advice in an adverse economic scenario to determine whether or not the Scheme's long-term objectives remain appropriate.

The realisation of investments

The Trustee delegates decisions around the realisation of investments to the fiduciary manager. Assets are realised as part of the rebalancing of assets in response to changing market conditions and to meet the cashflow needs of the Trustee.

Use of derivatives

As part of the overall consideration of investments, the Trustee has agreed to use derivatives such as forwards, futures, swaps and options for risk management and for the efficient implementation of the investment strategy. The Trustee has delegated responsibility for the design and implementation of derivatives strategies to the investment managers where the use of derivatives is permitted. The design and execution of derivative strategies will be subject to the guidelines contained in the agreement between the Investment manager and the Trustee. The Trustee has agreed a limit on the use of derivatives within the Scheme's assets. Further details can be found in the Investment Arrangements.

Special purpose vehicles

The Trustee may enter into an agreement with the Employer by which certain assets of the Employer are transferred to a special purpose vehicle, in which the Trustee holds an interest and from which they receive payments. The Trustee will seek advice from an appropriately qualified person when determining the value to be placed on such interest and payments.

Responsible Investment & Stewardship

Financially material considerations

The Trustee considers the Scheme to be an ongoing scheme and therefore has a long term time horizon for their portfolio, based on the expected term until benefits cease to be required to be paid from the Scheme. As such, the Trustee acknowledges the importance of being a responsible investor. The Trustee considers responsible investment to be the integration of environmental, social and governance factors (ESG) in investment decisions in respect of the portfolio where financial risk and/or return is or could be materially affected ("Responsible Investment").

The Trustee has responsibility to take account of environmental, social and governance factors in investment decision making. In this regard, the Trustee has delegated the application of its Responsible Investment policy to the Fiduciary Manager and its other investment managers. The Trustee has elected to invest the Scheme's assets through pooled funds. This has the practical result that the Trustee cannot themselves directly influence the ESG policies and practices of the companies in which the pooled funds invest. Where the Scheme assets are held in pooled arrangements, the Trustee expects its investment managers to take into account ESG (including but not limited to climate change), consistent with its approach to Responsible Investment.

The Trustee delegates responsibility to the Fiduciary Manager for monitoring how the Investment Managers take ESG factors into account within their investment processes. The Fiduciary Manager will also be responsible for monitoring the extent to which the investment strategy and decisions of the investment managers are aligned with the investment objectives of the Scheme. This includes monitoring the extent to which the Investment Managers:

- Make decisions based on assessments about medium- to long-term financial and non-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 expects its Investment Managers to take ESG factors into account in the selection, retention and realisation of investments, where financially material to the strategy being invested in, 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: Develop and maintain a robust monitoring process in order to monitor ESG factors on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.
- Realisation of investments: ESG considerations are taken into account in decisions to realise investments.

The Trustee will also take ESG factors into account as part of its investment process to determine a strategic asset allocation, where financially material, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustee will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:-

- The Trustee will obtain regular training on ESG to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by the Fiduciary Manager, to assess how the Scheme's investment managers take account of ESG issues; and
- The Fiduciary Manager is expected to provide regular reporting about the ESG policies or any other relevant material relating to the Scheme's investment managers and to provide detail on how they have derived their ESG ratings

Non-financial material considerations

The Scheme's assets are largely held in pooled arrangements therefore, it is not possible to reflect individual member views. However, the Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long term portfolio returns, which is consistent with its duties to act in the best interests of the beneficiaries of the Scheme.

The Trustee will review its policy on whether or not to take account of non-financial matters on a regular basis.

Stewardship

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

The Trustee’s policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the Investment Managers, where relevant, on the Trustee’s behalf. In doing so, the Trustee expects that the Investment 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 in their businesses.

The Trustee expects the Fiduciary Manager to monitor and engage with the Investment Managers about relevant matters (including business performance, strategy, capital structure, management of conflicts of interest, ESG and corporate governance matters) and to use its influence to ensure, where appropriate, the underlying Investment Managers exercise voting rights and ensure the Scheme's assets are not exposed to undue risk.

The Trustee expects the Fiduciary Manager to report on the details of the underlying investment managers' stewardship policy and engagement activities, where relevant to their strategy, on an annual basis. Where possible and appropriate, the Fiduciary Manager is expected to engage with the underlying Investment Managers for more information.

The Trustee accepts responsibility for how the Investments Managers and Fiduciary Manager stewards assets on its behalf, including the casting of votes in line with each managers’ individual voting policies. The Trustee reviews manager voting and engagement policies on an annual basis to ensure they are in line with the Trustee’s expectations and in members’ best interests.

Annual reporting which will be made available to Scheme members on a publicly available website and in the Scheme's Engagement Policy Implementation Statement ('EPIS'). Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme.

Should the Trustee’s monitoring process reveal that a manager’s voting and engagement policies and actions are not aligned with the Trustee’s expectations, the Trustee (via the Fiduciary Manager) will engage with the manager to discuss how alignment may be improved. This will take the form of interactive dialogue via email and at regular and/or ad hoc meetings as required and will be supplemented by annual reporting. If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered.

Compliance with the Pensions Acts

The Pensions Acts distinguishes between investments which are purchased directly by the Trustee (‘direct investments’) and investments where management is delegated to an investment manager under a written contract. An example of the former would be the purchase of an insurance policy by the Trustee (e.g. additional voluntary contributions policies), where there is no investment management agreement.

When deciding whether to make any new direct investments, the Trustee will obtain written advice from their Investment Adviser. They will also consider whether future decisions about those investments should be delegated to an investment manager

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals.

This written advice will cover the issues set out in the Pensions Acts and the principles contained in this Statement.

It is the Trustee's policy to regularly monitor and review the practices of the Investment Managers appointed by the Trustee to ensure that the Trustee's powers of investment are being exercised in accordance with the Pensions Acts, and with a view to giving effect to the principles in this Statement as far as practicable. If the Trustee becomes aware that any Investment Manager is not carrying out its duties in accordance with the Pensions Acts or this Statement, they will promptly review this situation with the Fiduciary Manager and Strategic Investment Adviser.

Cost and Performance

Fee basis for service providers

The Trustee uses a range of fee arrangements which may include performance related fees, fees as a percentage of the assets managed and fixed fees. The Trustee delegates the consideration of suitable fee bases for the Investment Managers to the Fiduciary Manager. The Fiduciary Manager considers a range of factors, including the level of the fees offered and the alignment of interests that the fees give with the Trustee's objectives.

Cost Monitoring

The Trustee is aware of the importance of monitoring their Fiduciary Manager and other Investment Managers' 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 the Scheme's Investment Managers that can increase the overall cost incurred by their investments.

The Trustee expects to receive annual cost transparency reports from the Fiduciary Manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers.

The Trustee works with the Strategic Investment Adviser and Fiduciary Manager to understand these costs in more detail where required.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs vary across asset classes and manager.

The Trustee expects the Fiduciary Manager to monitor the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the Investment Managers appointed under the fiduciary arrangement and the external Investment Managers.

The Trustee benefits from the economies of scale provided by the Fiduciary Manager in two key cost areas:

- The ability of the Fiduciary Manager to negotiate reduced annual management charges with the appointed Investment Managers under the fiduciary arrangement;
- The ability of the Fiduciary Manager to monitor ongoing investment costs (including additional fund expenses and portfolio turnover) incurred by the Investment Managers and achieve efficiencies where possible

Evaluation of Performance and Remuneration

The Trustee assesses the performance of its Fiduciary Manager and Investment Managers on a rolling three-year basis. This cost information is set out alongside the performance of the Fiduciary Manager and Investment Managers to provide context. The Trustee monitors these costs and performance trends over time.

Agreeing and reviewing this Statement

Advice received

The Trustee has obtained written advice on the content of this Statement from their Investment Adviser. They will also take written advice on any future major changes to this Statement.

The Trustee is satisfied that the Investment Adviser has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustee has consulted the Principal Employer, GKN plc, on the content of this Statement and will consult with them on future changes.

Compliance and Review

The Trustee will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and also following any significant change in investment policy.

Approved by GKN3 Trustee 2024 Limited, **November 2024**

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustee

The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee's investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of, Advisers and other third parties
- Setting appropriate investment objectives, following advice from the Strategic Investment Adviser and Scheme Actuary
- Agreeing the range of investment types, including any asset allocation restrictions to be used to achieve the investment objectives, taking account of the need to manage risks
- Monitoring the appropriateness of both the Fiduciary Manager and Strategic Investment Adviser
- Monitoring the Scheme's compliance with the pensions industry's Code of Best Practice
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this Statement, if deemed appropriate, in consultation with the Principal Employer and with written advice from the Strategic Investment Adviser and input from the Fiduciary Manager
- Monitoring compliance with this Statement on an ongoing basis
- Overseeing implementation of investment and de-risking policy
- Overseeing operational investment decisions

Strategic Investment Adviser

The Strategic Investment Adviser's role includes providing investment advice to the Trustee. A summary of the duties that fall into each category are shown below:

- Advice on setting the Investment Objective, including appropriate hedging levels for interest and inflations risks (including compliance with LDI collateral regulations).
- Risk modelling (including asset-liability analysis)
- Trustee investment training and education
- Advice relating to investment governance and compliance
- Advice on this Statement

- Advice relating to potential conflicts of interest, including their own
- Custodian selection and monitoring

Scheme Actuary

The key aspects of the Scheme Actuary's role that have a bearing on investment decisions include:

- Liaising with the Investment Adviser on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustee's Investment Objectives and investment strategy
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities
- Advice relating to potential conflicts of interest, including their own

Fiduciary Manager and other Investment managers

The Fiduciary managers' responsibilities include:

- Asset class, investment manager and risk reporting (Fiduciary Manager)
- Management of Liability Driven Investment ("LDI") portfolio, including collateral monitoring and stress testing in compliance with regulatory requirements.
- Trustee investment training and education (where required)
- Managing the assets delegated to them within the terms of their agreement
- Providing regular reports on their performance, including any agreed benchmark and performance targets
- Instructing the custodian on corporate governance and voting issues, including issues relating to Responsible Investment
- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolios as a whole

Providers of direct investments

Investments held directly by the Scheme are held in the form of units in pooled funds. The responsibilities of the providers are set out in the funds documentation. There is then usually an agreement between the provider and an organisation which manages the assets underlying the direct investment on a day-to-day basis. This agreement sets out the responsibilities of this organisation to the provider.

Custodian

The Custodian's responsibilities include:

- The safekeeping of assets of the Scheme
- Processing the settlement of all transactions
- Providing the Trustee with statements of the assets and cash flows
- Undertaking all appropriate administration relating to the Scheme's assets
- Processing all dividends and tax reclaims in a timely manner
- Dealing with corporate actions
- Performance measurement services to provide an independent calculation of the performance of the Scheme's assets as a whole

Third party Investment Adviser monitor

The responsibility of the third party Investment Adviser monitor is to monitor and review the Fiduciary Manager. The third party Investment Adviser monitor provides the Trustee with guidance and views on the appropriateness of advice from the Investment Adviser and in particular provides a judgement on conflicts of interest.

APPENDIX B – Risk factors

The table below provides some further detail on the major individual risk factors affecting the solvency risk. This includes a summary of what each of the risks are as well as the Trustee's policy on how each risk is measured and managed.

For all of these risks, the Trustee receives updates and advice from the Investment Adviser.

Risk factor	What is the risk?	How is the risk measured?	How is the risk managed?
Economic (or market) risk	That economic and financial conditions cause the return on investments to be worse than expected. In this situation it may be hard to find investments that will achieve the investment return objective.	The Trustee regularly monitors the portfolio in the context of the changing economic climate.	The Trustee, upon advice from the Investment Adviser invests the assets across a range of different types of investments to help reduce the impact of this risk.
Investment manager risk	The investment managers fail to beat their investment benchmark.	The Investment Adviser monitors the actual deviation of returns relative to the manager's benchmark for and on behalf of the Trustee.	The Investment Adviser reviews the investment managers as part of their assessment process.
Interest rate risk	The interest rate used to value the Scheme's liabilities falls. This would result in an increase	The Trustee monitors the mismatch between the exposure of the assets and the exposure of the liabilities to	The Trustee takes advice from the Investment Adviser, who also manages an agreed proportion of this risk on behalf of the Trustee by investing in

	in the value of the liabilities.	interest rates as part of the regular monitoring process.	certain assets, and using hedging techniques for and on behalf of the Trustee, which help to mitigate this risk.
Inflation risk	Inflation is higher than expected, causing the value of members' pensions to be greater than expected. This would lead to the value of the liabilities being greater than expected.	The Trustee regularly monitors the portfolio to assess the mismatch between the exposure of the assets and the exposure of the liabilities to inflation.	The Trustee takes advice from the Investment Adviser, who also manages an agreed proportion of this risk on behalf of the Trustee by investing in certain assets, and uses hedging techniques for and on behalf of the Trustee, which help to mitigate this risk.
Concentration risk	The failure to spread investment risk. This may be caused by investing in too narrow a range of investments, or investments that are affected by markets in a similar way.	The Trustee monitors the portfolio regularly to identify where assets are concentrated.	The Trustee, upon advice from the Investment Adviser ensures assets are spread across a range of investments. The Trustee has set investment guidelines to ensure assets are not concentrated.
Liquidity risk	There is a shortfall in liquid assets relative to the Scheme's immediate cashflow requirements.	The Trustee monitors the level of cashflow required on a regular basis.	The Trustee has set guidelines to limit the total value of assets invested in illiquid assets.
Operational risk	The risk of loss as a result of fraud, poor advice, acts of negligence or lack of suitable	The Investment Adviser undertakes due diligence on investment managers and the	The Trustee discusses the Investment Adviser's process as

	processes.	custodian for and on behalf of the Trustee.	part of their overall review process The Trustee ensures that all Advisers and third party service providers are suitably qualified and experienced.
Demographic risk	The value of liabilities increases due to members living longer than expected.	The Trustee receives regular updates on changes in demographics from the Scheme Actuary.	The Trustee acknowledges that readily-tradable instruments to hedge this type of risk do not currently exist and therefore this risk cannot be fully mitigated. The Trustee makes an allowance for this risk in setting the actuarial assumptions.
Sponsor risk	The Principal Employer does not/cannot make sufficient contributions to support the payment of the Scheme benefits. This may lead to a greater reliance on investment returns to pay for the benefits.	The Trustee considers the ability and willingness of the sponsor to support the continuation of the Scheme and make good any current / future deficit. The Trustee also periodically reviews a number of key factors, including sponsor covenant, size of deficit etc relative to a number of metrics.	Sponsor risk has been taken into account when agreeing a suitable investment objective. If there is a significant change in the sponsor covenant the Trustee will review their investment objective.

ESG (including climate change) risk	The potential for non-financial factors to adversely impact the value of the assets or overall funding position	The Fiduciary manager measures ESG risk based on the materiality of potential impact on each investment and distinguishes between high and low focus positions.	The Fiduciary manager monitors the portfolio regularly to ensure ESG risks are being appropriately considered in ongoing investment decisions. The Trustee reviews ESG risks on a regular basis
Investment Adviser risk	The Investment Adviser fails to meet its objectives.	The Trustee monitors the performance of the portfolio against the investment objective of the Trustee.	The Trustee carried out an extensive selection process ahead of appointing the Investment Adviser. The Trustee ensures that the Investment Adviser is suitably qualified and experienced to perform their role. The Trustee have also appointed a third party investment Adviser monitor to assist in managing the investment Adviser risk.
LDI collateral risk	Insufficient liquid assets or failure in process to meet LDI collateral requirements resulting in hedge positions being un-intentionally reduced/removed.	The Fiduciary manager monitors and maintains the portfolio in line with collateral/liquidity requirements.	The Trustee takes advice from the Strategic Investment Adviser to ensure yield headroom available within the LDI portfolio and highly liquid assets is resilient to a stress of a 6% rise in real interest rates.

Political Risk	The risk of loss resulting from political intervention (e.g. changes in policy) or through political instability.	The Investment Adviser monitors the concentration of investments by countries/regions for and on behalf of the Trustee.	The Trustee has set guidelines with the Investment Adviser to ensure the Scheme's assets are spread across a range of different types of investments.