

# STATEMENT OF INVESTMENT PRINCIPLES (SIP)

ADOPTED WITH EFFECT FROM SEPTEMBER 2023

This Statement is issued by the directors of ConocoPhillips Pension Plan Trustees Limited ('the **Trustee**'). It has been prepared in accordance with the Pensions Act 1995 and subsequent legislation and having regard to the Occupational Pension Plan (Investment) Regulations 2005. It describes the Principles governing decisions by the Trustee about the investment of the assets of the ConocoPhillips Pension Plan ('the **Plan**').

This Statement has been adopted with effect from the date shown above and replaces, with effect from that date, the previous Statement of Investment Principles adopted with effect from August 2021.

Before finalising this Statement, the Trustee has considered written advice from Towers Watson Limited (part of WTW) ('the **Investment Consultant**'), which is suitably qualified to provide such advice and is authorised and regulated by The Financial Conduct Authority. The Trustee will receive such advice on a regular basis. The Trustee has also consulted the Principal Employer (ConocoPhillips (U.K.) Holdings Limited) ('the **Company**') on the content of this Statement.

The Trustee will monitor compliance with this Statement on a regular basis; and will review it at least once every three years, or sooner where the Trustee considers a review is needed for any reason. No change will be made without first consulting the Principal Employer and considering written advice from the Investment Consultant. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

## 1) Choosing investments

In the opinion of the Trustee, apart from the limited restrictions in the Trust Deed and Rules of the Plan set out in Clause III.4(e), a copy of which is set out in Appendix A to this Statement, there are no other restrictions in the Trust Deed and Rules of the Plan which restrict the types of investments in which its assets may be invested.

Nothing in this Statement restricts any power of the Trustee to make investments by reference to the consent of the Company (see Section 35(4) of the Pensions Act 1995).

The Trustee has ultimate responsibility for decision making on investment matters. It determines the primary allocation of assets between different classes but has delegated to the Investment Committee ('the **IC**'), a committee of the Board of Directors of the Trustee, responsibility for determining the composition of assets within each class.

After taking appropriate investment advice, the IC specifies that composition and determines whether to invest in pooled funds or to appoint specialist investment managers. Day-to-day investment choice is the responsibility of the investment managers of the relevant pooled funds or is delegated to the appointed specialist investment managers, subject to defined tolerances relative to their respective benchmarks.

The Plan uses different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement. The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.

Investment Managers are paid an ad valorem fee, in line with normal market practice, based on the value of assets that they manage for a given scope of services which includes consideration of long-term factors and engagement. Some of the managers may be paid incentive fees based on the performance achieved.

The Trustee reviews the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity where possible to drive improved performance over these periods.

To maintain alignment with the SIP, investment managers are provided with the relevant sections of the most recent version of the Plan's Statement of Investment Principles on at least an annual basis and are requested to confirm that the management of the assets is consistent with those policies.

In the event that the Trustee's monitoring process reveals that an investment manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the investment manager to determine how closer alignment can be achieved. If, following engagement, the Trustee concludes that the degree of alignment remains unsatisfactory, the investment manager may be terminated and replaced.

### **i) Self investment**

The Trustee has a policy not to invest directly in securities issued by the Principal Employer or its subsidiaries or associated companies and to ensure that investment in such securities in aggregate across all investments does not constitute more than five percent (5%) of the Plan's assets.

### **ii) Sustainable investment considerations**

The Trustee takes account of all financially material risks and opportunities, including capital structure of investee companies and ESG impact of underlying holdings, in consultation with its advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Plan's journey plan and funding time horizon. The Trustee's time horizon reflects the time horizon of the Sponsor's business and the Plan's maturing liability profile. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.

The Trustee's policy is that day-to-day decisions relating to the investment of Plan assets is left to the discretion of its investment managers. This includes consideration of all financially

materially factors, including ESG-related issues where relevant. The Trustee explores these issues with its managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed.

When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.

The Trustee policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy. The Trustee has identified climate change as a particular area of focus for its stewardship activity and reporting.

## 2) Investment objectives

The Trustee's primary investment objective is to secure and maintain sufficient assets to meet the Plan's liabilities as they fall due and to do so through the fundamental investment objective of adopting an appropriate level of risk relative to the Plan's liabilities.

In assessing the above, the Trustee takes into account factors such as the Principal Employer's approach to funding the Plan and the financial strength of the Company relative to the Plan, plus its understanding of the contributions likely to be received from the Company and the Plan members. The Trustee also considers its own willingness to accept underperformance due to market conditions.

To meet the primary investment objective, the Trustee will target:

- a. The acquisition of suitable assets of appropriate liquidity and diversity which will generate income and capital growth to meet, together with new contributions from members and the Company, the cost of current and future benefits for which the Plan provides.
- b. Limitation of the risk of the assets failing to meet the liabilities over the long term and applicable regulatory funding requirements.
- c. Minimisation of the long-term costs of the Plan by maximising the return on the assets whilst having regard to the objective shown under **b** above.

### **i) Expected return on assets and long-term strategy**

The Trustee recognises that the returns on real assets (such as property and equities), while expected to be greater over the long term than those on monetary assets (such as cash and bonds), are also likely to be more volatile. In establishing the strategy the Trustee has considered the Plan's overall risk budget.

The Trustee believes that it is important to take the liability profile into account when setting investment strategy and that asset liability modelling ('ALM') undertaken concurrently with actuarial valuations represents an effective means to assess this.

Following advice from the Investment Consultant, the Trustee has approved the following strategic allocation and ranges in order to pursue the above objectives. All investments, except for Alternative Credit, are managed on a passive or buy & hold basis. Authority from

the Trustee will be required before any investment may be made in any asset class not shown.

| <b>Asset Class</b>  | <b>Long-Term Target Allocation</b> | <b>Actual Allocation at 30 June 2023*</b> | <b>Expected return relative to CPI**</b> | <b>Expected return relative to Gilts***</b> |
|---|------------------------------------|---|--|---|
|   | <b>%</b>                           | <b>%</b>                                  | <b>% pa</b>                              | <b>% pa</b>                                 |
| Global equities   | 10.0                               | 10.4                                      | 3.0                                      | 4.0   |
| Alternative Credit  | 10.0                               | 13.6                                      | 2.2                                      | 3.3   |
| Buy & Maintain Credit***                                    | 30.0                               | 27.0                                      | -0.2                                     | 0.8   |
| Liability Driven Investment Portfolio (including cash)***** | 50.0                               | 49.1                                      | n/a                                      | n/a   |
| Global property   | 0.0                                | 0.0                                       | 1.6                                      | 2.7   |
| <b>Total</b>  | <b>100.0</b>                       | <b>100.0</b>                              |  |   |

Figures may not add to 100% due to rounding.

\* As at the date of this document, the Trustee was in the process of rebalancing to move the portfolio closer towards the Strategic Asset Allocation through disinvesting £20m from each of the Plan's Alternative Credit managers.

\*\* The expected returns are the 10-year median annualised returns and are relative to CPI. The expected returns are based on WTW "Lower for Longer" asset return assumptions as at 31 March 2021

\*\*\* The expected returns are the 10-year median annualised returns and are relative to liability matching gilts. The expected returns are based on WTW "Lower for Longer" asset return assumptions as at 31 March 2021.

\*\*\*\* The return assumption for Buy & Maintain credit is approximated by the assumption for all stocks investment grade sterling corporate bonds. The primary purpose of this mandate is to match the cashflows of the liabilities.

\*\*\*\*\* The Liability Driven Investment Portfolio comprises investments in UK government bonds, derivatives and cash and may include leverage through the use of derivatives and gilt repo. The overall objective of the portfolio, in combination with the other assets of the Plan, is to hedge approximately 100% of the interest rate and inflation risk of the Plan's liabilities.

A full list of the investment managers employed by the Plan, together with the underlying mandates and performance objectives, are listed in Appendix C.

## ii) De-risking triggers

Following consultation with the sponsor, the Trustee has historically adopted a dynamic de-risking policy to vary the strategy of the Plan through targeting a reduced allocation to global equities, with the allocations to UK non-government bonds and Liability Driven Investments increasing accordingly. These variations are dependent on the funding level of the Plan, with triggers having been set for further de-risking (see Appendix B). Any changes remain under regular review by the Trustee. These triggers have been suspended whilst the Trustee considers the implementation of their long-term strategic objective.

### 3) Risk management

The Trustee recognises that there are a number of investment risks involved in the investment of the assets of the Plan, which it monitors on a regular basis through a risk register and seeks to mitigate. While certain risk factors cannot be eliminated entirely, they can be monitored and mitigated against. Risks should be assessed on a periodic basis, including but not limited to interest rates and inflation. Comments on how some of the principal risks are measured and managed by the Trustee are set out below:

**a) Solvency risk and mismatching risk** - the risk that the assets of the Plan may be insufficient to meet the liabilities, or may be not fully matched to the duration of the liabilities, leading to volatility in the funding level and contributions required.

- Is measured through a qualitative and quantitative assessment of the expected development of the liabilities, relative to the current strategic investment policy, and possible alternative strategic approaches.
- Is managed by the IC through assessing the progress of the actual growth in liabilities relative to the current strategic investment policy.

**b) Underperformance risk** – the risk that poor performance by one or more individual investment managers has a significant negative impact on the investments of the Plan.

- Is measured by the expected deviation of the prospective risk and return, relative to the investment benchmark.
- Is managed by the IC, together with the Investment Consultant, through monitoring the actual deviation of returns relative to the objective and factors supporting each manager's investment process.

**c) Liquidity risk** – the risk that the Plan is forced to sell investments in poor markets to fund benefit drawdowns on commitments to illiquid assets such as private equity and other payments.

Is measured by projecting the estimated level of cashflow required by the Plan over a specified period and monitoring the amount of collateral that is available to support the Plan's derivative-based exposures.

Is managed by the IC, together with the Plan administrator, through assessment of the amount of cash needed each month and realisation of appropriate assets in the light of the forecast level of drawdowns and payments, as well as quarterly monitoring of the collateral headroom within the Plan's Liability Driven Investment (LDI) portfolio and proportion of liquid assets available to meet any collateral calls. In addition, the available collateral is managed by the Plan's LDI manager, including through assessing the collateral headroom within the LDI portfolio on an ongoing basis and by the Trustee providing the manager with a prudent level of assets to support any derivative exposures.

The Trustee also manage this risk by reviewing the impact on overall portfolio liquidity and the level of collateral headroom within the LDI portfolio as part of determining any changes to the investment strategy.

**d) Custodian risk** - the risk that the Custodian (which at the effective date of this Statement is State Street Bank & Trust Company) misplaces Plan investments that it is receiving, delivering or safekeeping.

- Is measured by assessing the quality of the Custodian; its abilities to settle trades on time and to keep safe custody of assets.
- Is managed through the Investment Committee reviewing regular reports from the Custodian on the assets acquired and disposed of by the Plan and the Custodian's performance relative to agreed service levels. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.

**e) Political risk** - the risk that a political event could have a significant adverse impact on the value of the Plan's investments.

- Is measured by the proportion of the Plan's total investments that are concentrated in one geographic market and/or one asset category.
- Is managed by the IC, together with the Investment Consultant, through regular review of the actual investments of each manager relative to their mandate and through periodic assessment of the levels of diversification of the investment portfolio as a whole.

**f) Sponsor risk** - the risk that the Company cannot, or will not, make good a current or future deficit of the Plan.

- Is measured by the level of ability and willingness of the Company to support the continuation of the Plan and to make good any current or future deficit.
- Is managed by the Board, with input from its covenant adviser, assessing the financial strength of the Company's business (including the impact on it of the needs of the Plan), as measured by a number of factors, including the credit ratings and ratios of the Company and several credit metrics that compare the size of the Plan's pension liability to the financial strength of the Company.

**g) Counterparty risk** - the risk that: (i) an obligor (for example, the issuer of a corporate bond) fails to pay the principal or interest; and (ii) (normally a lesser risk) a financial institution which is a counterparty to a transaction fails to deliver its side of the agreement.

- Is measured by reference to the credit quality of (a) the obligors under assets owned by the Plan and (b) the counterparties with whom the Plan enters into transactions.
- Is managed by the IC, together with the Investment Consultant, through monitoring and by means of the managers' counterparty risk policies and levels of exposure. In addition, and to the extent that derivatives transactions may be undertaken, any large transactions will be collateralised.

**Note:** Counterparty risk monitoring extends to (i) BlackRock Life Limited with whom a portion of the assets of the Plan are invested in a unit-linked life policy issued by it, and (ii) the financial strength of the Custodian both to stay in business and to satisfy any amounts that may become due from it to the Plan.

**h) Currency risk** - the risk that the sterling value of assets falls due to a change in price of one currency against another.

- Is measured by the movement of the currencies in which the Plan has exposure to through overseas investments.
- Is managed by the IC, together with the Investment Consultant, through each manager's guidelines and restrictions, and through a currency hedge for part of the overseas asset exposure into Sterling.

**i) Leverage risk** – the risk that the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly the payment to be made.

- Is measured by monitoring the overall leverage of the Plan's portfolio through reporting from the Plan's LDI manager.
- Is managed through the investment policy adopted by the Trustee for the backing assets and the investment managers' asset management capabilities.

**j) Legal and operational risk** – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks.

- Management of this risk is delegated to the Plan's LDI manager through the pooled fund structure adopted.

### **Risk reduction strategies**

The Trustee will use strategies to reduce risks it feels are unrewarded when it believes these are appropriate to assist in meeting the investment objectives outlined above. Before entering any transaction, and on a regular basis, the Trustee will consider advice from the Investment Consultant to ensure the risk reduction strategy employed, when considered in conjunction with the Plan's other assets, is appropriate.

### **Guidelines and restrictions**

The Trustee has also agreed various guidelines and restrictions with each investment manager in its underlying Investment Management Agreements, which may only be changed with the consent of the Trustee. These are designed with the aim of addressing the issues of suitability of investments (including the use of derivatives), currency exposure, adequate diversification of investments, liquidity and approved counterparties. The governing documents of pooled funds also contain investment restrictions.

These guidelines will be reviewed periodically, in the light of changing investment markets and alternative investment opportunities, and adjusted as appropriate.

The Plan's strategic asset ranges are designed to promote diversification of the Plan's investments at an asset class level and the guidelines and restrictions outlined above promote diversification at the stock selection level.

### **Manager structure**

The Trustee employs a number of investment managers and uses a range of pooled funds with specialist investment objectives. The combined effect of these arrangements on the overall asset allocation of the Plan is monitored regularly by the Investment Consultant and reviewed with the IC and/or Trustee where appropriate.

### **Realisation of investments**

Specialist investment managers are expected to consider the liquidity of investments when new investments are made and to sell investments they do not consider suitable for the Plan at an appropriate time.

### **Performance measurement**

A set of measurable performance objectives has been developed for the investment managers and pooled funds. Performance in each asset category is compared with a suitable benchmark and an out-performance objective where applicable. The investment managers are expected to demonstrate skill in the management of their portfolios consistent with the performance objectives, given the levels of risks adopted. Investment performance is considered regularly by the Investment Consultant and assessed by the Trustee at least annually.

## **4) Additional Voluntary Contributions ('AVCs')**

The Plan provides a facility for members to pay AVCs to enhance their benefits at retirement. The Trustee wishes to give members a reasonable degree of freedom over the investment of their AVCs. The Trustee's objective is to provide access to funds which the Trustee is advised by the Investment Consultant are expected to provide a suitable long-term return for members, consistent with members' reasonable expectations and risk preferences. The Trustee has therefore made available, after taking advice from its Investment Consultant and considering the level of charges associated with them, a range of pooled funds offered primarily through Standard Life (See Appendix D).

The suitability and appropriateness of these funds is reviewed by the Trustee periodically but not less frequently than every three years.

Some AVC members held Equitable Life with profit funds but these were transferred to Utmost on 1 January 2020 as part of a Guarantee Exchange Scheme. These Utmost funds have subsequently been moved to the main AVC section with Standard Life.

### **Additional Defined Contribution Risks**

The Trustee recognises a number of investment risks associated with the Plan's Additional Voluntary Contributions (AVC) arrangements

- I. Capital risk – arising from volatility in stock markets and investment manager underperformance
- II. Pension conversion risk – arising from volatility in annuity rates
- III. Retirement mismatching risk – the risk that investment holdings are not aligned to the way in which members wish to access their benefits on retirement
- IV. Opportunity cost risk – the risk that a member does not take enough investment risk when they can (such as when they are younger) resulting in a smaller AVC pot at retirement than might have been the case had a greater level of risk been taken
- V. Inflation risk – the risk that the returns on a member's investments don't sufficiently exceed price inflation.

These additional risks are addressed through offering a range of AVC investment options from which a member can choose enabling them to select investment options which best mitigate the risks which they consider to be most important to them.



## **References to pooled funds**

References in this Section 4 of this Statement to funds or pooled funds include investment options under unit-linked life policies issued by insurance companies to the Trustee.

**APPENDIX A**  
**CLAUSE III.4(E) OF THE TRUST DEED AND RULES OF THE PLAN DATED 30 APRIL 2012**

**"Restrictions on power of investment**

- (e) The provisions of sub-Clauses (a) to (d) are subject to the following restrictions:
- (i) the Trustees shall consult with the Principal Employer on the exercise of their powers under sub-Clause (a) of this Clause;
  - (ii) if the provisions of Section 35 of the 1995 Act cease to apply the Trustees shall not make sell or retain any investment or place funds on deposit in violation of any specific or general investment policy which is prescribed from time to time by the Principal Employer;
  - (iii) (A) a Member may choose from the investments from time to time selected by the Trustees and made available to the Member the way in which his Member's Fund is invested. The Trustees may make different investment options available for contributions made on or after 1 July 2009 from those investment options made available for contributions made before 1 July 2009. A Member may also on giving such notice as the Trustees may reasonably require (not being more than twelve months' notice) elect that some part or the whole of his Member's Fund is transferred from one of the investments selected by the Trustees to another such investment;  
  
(B) For the purposes of (A) above, an "**Eligible Investment**" means:
    - (I) in relation to a Member who commences to pay voluntary contributions to the Plan for the first time on or after 1<sup>st</sup> July, 2009, an investment options selected by the Trustees and made available at the time in question to a Member who commences to pay voluntary contributions to the Plan for the first time for the investment of all or part of the Member's Fun;
    - (II) in relation to Member who immediately prior to 1<sup>st</sup> July, 2009 was paying voluntary contributions to the Plan, an investment option selected by the Trustees and made available at the time in question to a Member who was paying voluntary contributions to the Plan immediately prior to 1<sup>st</sup> July, 2009 for the investment of all or part of the Member's Fund; or
    - (III) such other investment option as the Trustees may permit either generally or on a case by case basis at the time in question.
  - (iv) the Member's Fund of a Member who does not exercise his right under paragraph (iii) shall be invested in such manner as the Trustees shall determine;
  - (v) where the Trustees follow any instructions given by a Member under paragraph (iii) or invest the Member's Fund under paragraph (iv) they shall (subject as necessary to the 1995 Act) be under no duty or obligation to the Member or to any other Beneficiary in respect of any loss or diminution in the value of the

Member's Fund which results from the investment of the Member's Fund in accordance with paragraph (iii) or (iv);

- (vi) the Trustees shall comply with the requirements relating to self-investment contained in Section 40 of the 1995 Act;"

**APPENDIX B**  
**DE-RISKING TRIGGERS (SUSPENDED)**

The Trustee has historically adopted a dynamic de-risking schedule in order to make changes to the current asset allocation. These changes involve a reduction to the Plan's exposure to global equities and alternative credit and a corresponding increase in the exposure to Buy & Maintain credit and LDI assets. These changes are based on the Plan's funding level, with the full agreed schedule outlined below (trigger levels between the dates shown are calculated by linearly interpolating between the funding levels).

In each case, the move between portfolios reflects a 5% sale of return-seeking assets (split 50:50 between alternative credit and equities) with the proceeds being invested into LDI. Funding levels are shown on the Gilts+0.3%pa basis.

As at the date of this Statement, these triggers have been suspended whilst the Trustee considers the implementation of their long-term strategic objective.

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| <b>De-risk to:</b>     | <b>30/09/2021</b> | <b>30/09/2022</b> | <b>30/09/2023</b> | <b>30/09/2024</b> |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>1. Gilts+0.9%pa</b> | 103.2%            | 103.6%            | 103.6%            | 103.7%            |
| <b>2. Gilts+0.7%pa</b> | 104.1%            | 104.4%            | 104.3%            | 104.3%            |

## Appendix C

### INVESTMENT MANAGERS AND THEIR PERFORMANCE OBJECTIVES

The manager mandates below reflect the strategic allocation as referenced earlier in the Statement.

#### i) BlackRock Investment Management (UK) Limited

BlackRock Life Limited has issued a unit linked life policy to the Trustee to facilitate investment on an index tracking basis in the Equity portfolio shown in the Table below. BlackRock Investment Management (UK) Limited has been appointed as the Investment Manager of the Trustee (i) to manage that portfolio, and (ii) to manage on a segregated<sup>1</sup> basis with a mandate to match the Plan's liabilities and access the credit risk premium, the other portfolio as listed in the Table below.

This equates to 90% of the overall strategic allocation.

| Asset class                           | Benchmark   | Control Range <sup>3</sup> |
|---------------------------------------|---|----------------------------|
| <b>Equity portfolio<sup>2</sup></b>   |   |                            |
| Global equities (unhedged)            | MSCI World Index                                    | +/- 1.5%                   |
| Global equities (GBP hedged)          | MSCI World Index (GBP hedged)                       | +/- 1.5%                   |
| <b>Integrated LDI portfolio</b>       |   |                            |
| Buy & Maintain credit                 | No benchmark  | +/- 3%                     |
| Liability Driven Investment Portfolio | Bespoke benchmark reflecting the Plan's liabilities | +/- 3%                     |

<sup>1</sup> Segregated in this context means the Trustee has a proprietary interest in the relevant assets.

<sup>2</sup> The Global equities mandate is split between the Aquila Life MSCI World Index Fund and the Aquila Life Currency Hedged MSCI World Index Fund. The Manager is expected to maintain 75% of the equity portfolio within the Aquila Life Currency Hedged MSCI World Index Fund and 25% within the Aquila Life MSCI World Index Fund.

<sup>3</sup> The control ranges apply within the Equity and Integrated LDI portfolios only.

BlackRock Investment Management (UK) Limited is responsible for maintaining the asset allocation within the Equity and Integrated LDI Portfolios close to the central allocations and within the control ranges as set out in the table above. The Equity Portfolio is held within a life wrapper.

The performance objective of the global equities portfolio is to achieve index returns in line with the MSCI World Index (75% hedged). The objective of the Buy & Maintain credit mandate is to access secure high quality cashflows while exploiting the credit risk premium

through a portfolio managed on a low turnover basis. The objective of the LDI portfolio is to obtain interest rate and inflation exposure within the Integrated LDI Portfolio to control the exposure relative to the Plan's liabilities. It is expected that the Integrated LDI Portfolio will hedge approximately 100% of the interest rate and inflation risk of the Plan's liabilities and will utilise leverage in the form of gilt repo and derivative contracts (principally interest rate swaps and inflation swaps) in achieving this target hedge ratio.

## **ii) M&G Investment Management Limited**

The Plan has selected the M&G Alpha Opportunities Fund managed by the M&G Investment Management Limited as one of its two alternative credit managers, targeting a holding of 5% of total Plan assets. The investment objective of the Fund is to seek to maximise total return, consistent with prudent investment management. The investment objective of the Fund is to provide investors with attractive returns from capital and income from a diversified pool of debt and debt like assets. The Plan is invested in a GBP hedged share class of the Fund to reduce currency risk.

## **iii) Oak Hill Advisors**

Oak Hill Advisors is one of two multi-strategy alternative credit managers that makes up the Plan's Alternative Credit allocation. Through the Diversified Credit Strategies Fund GBP share class, the manager invests 5% of the Plan's assets. The investment objective of the Fund is to seek attractive risk-adjusted total returns for investors by investing primarily in the non-investment grade corporate debt markets in the U.S. and Europe.

## Appendix D

### AVC Arrangement

The Trustee currently offers the following core range of funds through Standard Life who is the main AVC provider:

| Fund  | Asset class                   | Fund aim and expected returns   |
|---|-------------------------------|---|
| Standard Life Deposit & Treasury Pension Fund           | Cash                          | To maintain capital and provide returns before charges in line with short term money market rates by investing in deposits and short-term money market instruments.   |
| SL iShares Over 15 Year Gilt Index Pension Fund         | Government Bonds              | <p>To achieve a return consistent with the FTSE UK Gilts Over 15 Years Index, which is widely regarded as the benchmark for UK Pension fund investment in the longer dated end of the UK Gilt market.</p> <p>The fund invests in UK government fixed income securities (gilts) that have a maturity period of 15 years or longer.</p>   |
| SL BlackRock Managed (50:50) Global Equity Pension Fund | Equities                      | <p>To provide returns consistent with the markets in which it invests and provides broad exposure to countries around the world.</p> <p>The Fund invests primarily in equities, both in the UK and overseas markets. The Fund has approximately 50% invested in the shares of UK companies. The remaining 50% is invested in overseas companies split equally between the US, Europe ex-UK and Pacific Rim.</p> |
| SL iShares UK Equity Index Pension Fund                 | Equities                      | To achieve capital growth by tracking closely the performance of the FTSE All Share Index, the Fund's benchmark index. The Fund invests in equity securities of companies that make up the benchmark index.   |
| SL iShares Index Linked Gilt Index Pension Fund         | Government Index Linked Bonds | <p>To achieve a return consistent with the FTSE UK Gilts Index-Linked Over 5 Years Index, which is widely regarded as the benchmark for UK pension fund investment in the longer dated end of the UK index-linked gilt market.</p> <p>The fund invests in UK Government index-linked securities (index-linked gilts) that have a maturity period of 5 years or longer.</p>                                      |

| Fund   | Asset class     | Fund aim and expected returns   |
|--|-----------------|---|
| SL iShares Corporate Bond Index Pension Fund       | Corporate Bonds | To achieve a return, through a combination of capital growth and income on the Fund's assets, by tracking closely the performance of the Markit iBoxx GBP Non-Gilts Overall TR Index, the Fund's benchmark index. The Fund invests in fixed income securities (such as bonds) that make up the benchmark index and, at the time of purchase, comply with the credit rating requirements of the benchmark index. |
| SL BlackRock ACS World (ex-UK) Equity Pension Fund | Equities        | To achieve a return in line with the FTSE All-World Developed ex-UK Index.<br><br>This Fund invests in the shares of the overseas companies, according to market capitalisation weightings. Within each of those markets, the fund aims to generate returns consistent with those of each country's primary share market.   |

The Trustee also offers a lifestyle option that aligns with taking a cash lump sum at retirement. The objective of the lifestyle strategy is to generate capital growth by investing in the Standard Life BlackRock Managed (50:50) Global Equity Pension Fund before gradually reducing risk and volatility during the five years immediately prior to a member's selected retirement date by automatically switching to the Standard Life Deposit and Treasury Pension Fund. The lifestyle targets a cash lump sum as the majority of members use their AVC benefits as a first port of call to fund their tax-free cash entitlement.

The Trustee believes that the Plan's core fund range (including the lifestyle option) is suitably designed, and it continues to monitor it through the investment policies outlined in this document to ensure that assets are invested in the best interests of the Plan's members and any potential beneficiaries.

In addition to the above 'core funds' two further funds are open to contributions from members who were already contributing to them in April 2009. These are the Santander Deposit Account Fund and the Phoenix Life With-Profits Fund.

There are also a number of legacy funds (which have been closed to further contributions since 1 April 2009) with Clerical Medical, Standard Life, Phoenix Life.