

NOVEMBER 2025

# GE Aerospace Pension Plan – GE Aerospace Pension Saver II Section Statements of Investment Principles

# Contents

## Introduction

The law requires the Trustee to produce a formal “Statement of Investment Principles” for the DC Section’s default arrangement and its other investment options. This Statement set out what the Trustee aims to achieve with the investment options and its investment policies which guide how members’ money is invested.

This Statement of Investment Principles for the GE Aerospace Pension Plan – GE Aerospace Pension Saver II Section (the “DC Section”) must cover several technical points to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the DC Section’s Auditors. These points, as far as possible, are shown separately in “for the record” boxes.

The Trustee will publish on-line the Statement of Investment Principles and an Implementation Statement each year describing how the policies and practices described in the Statement of Investment Principles have been implemented during the last year.

## Statement of Investment Principles

The Trustee’s Statement of Investment Principles for the DC Section for the default arrangement\* and other investment options include:

- 1 The aims and objectives for the default arrangement and the other investment options; and
- 2 The Trustee’s investment beliefs, views on expected risks and returns and policies on responsible investing.

## For and on behalf of the Trustee of the DC Section

Name	Signed	Date
GE Aerospace Pension Trustees Limited		

## Seen by Principal Employer

Name	Signed	Date
GEH Holdings		

# 1 Aims and objectives for the default arrangement and other investment options

## Reasons for the Default Arrangement[s]

The Trustee has decided that the DC Section should have a default investment arrangement because:

- The DC Section is a qualifying scheme for auto-enrolment purposes and so must have a default arrangement;
- It should be easy to become a member of the DC Section and start building retirement benefits without the need to make any investment decisions; and
- A majority of the DC Section's members are expected to have broadly similar investment needs.

## Choosing the default arrangement and other investment options

### Membership analysis

The Trustee believes that understanding the DC Section's membership is important to maintaining an appropriate default arrangement for a majority of members and range of other investment options. The Trustee has taken into account a number of aspects including:

- The members' age and salary profile;
- The likely sizes of members' DC pension funds at retirement;
- Previous sources of retirement income from the Employer;
- Members' retirement dates and likely range of benefit choices at and into retirement;
- The levels of investment risk and return members may be willing to take;
- The degree to which members are likely to take an interest in where their contributions are invested; and
- The number of members who are likely to want responsible, ethical or faith-based investment.

### Member behaviour

The Trustee has also considered the results of academic research and market surveys into how members choose where to invest their pension funds which in summary show:

- Too little choice is viewed negatively by members;
- Too much choice can prove confusing and deter members from taking action; and
- Some members will not regularly review their choices.

### Costs of investment options

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

## Objectives for the default arrangement[s]

The main objective of the default arrangement is to provide good member outcomes at retirement. The Trustee believes that it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members' face during their membership of the DC Section;
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the DC Section for the majority of members who do not make investment choices; and
- Reflects members' likely benefit choices at retirement.

### The default arrangement

The default arrangement is therefore a lifestyle strategy which:

- Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the DC Section; and
- Targets members who are expected to use Flexible Access Income Drawdown during their retirement.

### Reasons for the investment options outside the default arrangement

In addition to the default arrangement, the DC Section offers members a choice of investment options because:

- While the default arrangement is intended to meet the needs of a majority of the DC Section's members, it may not meet the needs of a wider cross-section of members;
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

### Objectives for the other investment options

The DC Section offers members a choice of investment options as an alternative to the default arrangement.

#### Alternative lifestyle option

The main objective of the alternative lifestyle option is to give good member outcomes at retirement.

The Trustee believes that it is in the best interests of members to offer an alternative lifestyle option to:

- Manage the principal investment risks members' face during their membership of the DC Section;
- Maximise investment returns relative to inflation while taking an appropriate level of risk during membership of the DC Section for members who do not otherwise make investment choices; and
- Give further choice for members who feel that the DC Section's default arrangement is not appropriate to their needs, but do not otherwise want to be involved in deciding where their contributions are invested.

The alternative lifestyle option gives members a choice compared to the default arrangement of:

- Targeting buying an annuity at retirement.

#### Self-select funds

The objectives of the self-select fund range are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension funds is invested;
- Complement the objectives of the Default Arrangement and the alternative lifestyle option;
- Provide a broader choice of levels of investment risk and return;
- Provide a broader choice of investment approaches including responsible investing, ethical and faith-based funds;
- Help members more closely tailor how their pension funds are invested to their personal needs and attitude to risk;

- Help members more closely tailor how their pension funds are invested to reflect the benefits they intend to take at retirement.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

### **Risk and return**

The expected levels of investment returns (after the deduction of charges) and risks for the funds used in the default arrangement and other investment options are consistent with the Trustee's objectives for all investment options. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 2.

## 2 Investment beliefs, risks and policies

### Introduction

This section sets out the investment beliefs and policies which guide the Trustee's decision making.

### Risks

#### Principal investment risks

The Trustee believes that the three principal investment risks most members will face are:

Risk	Description and approach to managing risk
<b>1) Inflation</b>	<p>Investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.</p> <p>Further from retirement, this risk should be countered by funds investing in equities and other growth orientated assets which are expected to produce returns well in excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.</p>
<b>2) Benefit conversion</b>	<p>Investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.</p> <p>For members taking cash at retirement, funds investing in cash deposits and other short-term interest-bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.</p>
<b>3) Volatility/Market</b>	<p>Falls in fund values prior to retirement lead to a reduction in retirement benefits.</p> <p>Funds investing in bonds or a mix of assets or investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.</p>

#### Other investment risks

The Trustee believes that other investment risks members may face include:

**Active management risk** – a fund manager's selection of holdings may not lead to investment returns in line with the fund's objectives and investment markets generally.

The Trustee is comfortable that the benchmark asset allocation of the default strategy offered to members is appropriate and consistent with the lifestyle approaches to investment which are in place. The decision to invest primarily in passive funds reduces manager risk relative to benchmark (which would arise from the potential underperformance of a benchmark).

**Currency risk** – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

**Interest rate risk** – the value of funds which invest in bonds will be affected by changes in interest rates.

**Default risk** – for bond funds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

**Liquidity risk** – funds which invest in assets which cannot be easily bought or sold (such as property) may at times not be able to accept new investments or disinvestments of existing holdings.

**Counterparty risk** – the financial institutions holding a fund's assets may get into financial difficulties leading to a reduction in a fund's value.

**Market risks** - shifts in market sentiment (for example, in response to economic news or geopolitical events) or momentum in general market trading can lead to widespread changes and/or volatility in asset values over the short-term.

This can include short-term changes in the normally expected correlations of the behaviour of risks and returns seen between different asset classes, when standard approaches to mitigating risks such as diversification are temporarily ineffective.

**Factor based investing** – equity investments may show several factors (supported by academic research) that may be expected to deliver stronger returns over the longer-term, but which may show increased risks (including timing) in the shorter-term.

**Environmental, Social and Governance (ESG) risks** – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

**Climate risk** - the extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

**Legislative/Regulatory** - changes in government policy or taxation may have a long-term positive or negative impact on certain sectors of a country's economy or one country relative to its neighbours over the medium to longer-term. Changes in Regulations can also affect the operational costs, tax efficiency and security of one investment vehicle relative to other vehicles over the shorter-term.

### Managing risks

The Trustee with advice from its investment adviser, assesses the impact of all investment risks on long-term investment returns.

### Time horizon

The Trustee monitors the age profile of the DC Section's membership to arrive at an appropriate investment horizon for different groups of members when considering all investment and financially material risks.

### Principal investment risks

The lifestyle options manage the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement.

The self-select fund range provides members with a choice of funds with differing risk and return characteristics which are expected to meet the investment needs of a majority of members.

### Ability to invest/disinvest promptly

The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds, and that these can be sold promptly for example when members wish to change where they

are invested, transfer to another arrangement or if they wish to draw on their pension pot. The Trustee manages this risk by selecting pooled investment funds which can be dealt on a daily basis. The platform provider is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets.

### **Other investment risks**

The Trustee seeks to manage the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the DC Section.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

### **Financially material considerations**

The Trustee recognises that:

- The consideration of financially material considerations, including ESG factors and climate risk, over the appropriate time horizon are relevant at different stages of the investment of members' defined contribution benefits; and
- The financial materiality of any factor, including ESG factors and climate risk, may be relevant to different degrees according to the asset class or classes in which a fund invests.

The Trustee will consider financially material considerations, including ESG factors and climate risk in the development and implementation of the DC Section's investment arrangements for the purposes of determining the selection, retention and realisation of investments where there is sufficient data or evidence to allow them to systematically do so. The Trustee expect that the investment platform provider will engage with their investment managers to ensure they take such considerations into account within their decision making. The Trustee may also seek to engage with the investment managers to ensure they take such considerations into account within their decision making, and challenge where appropriate.

The Trustee has explicitly acknowledged the relevance of ESG factors including climate change in framing their investment beliefs set out below and the broader implementation of these beliefs.

### **Implementation**

The DC Section uses standard pooled funds offered by the fund managers. This gives access to a range of funds while keeping down costs to members, but this means that the Trustee cannot adopt an approach to managing financially material considerations specific to the DC Section. The Trustee nevertheless seek to manage financially material considerations to protect long-term returns by:

- Choosing an investment platform provider who has adopted effective processes for the selection and governance of fund managers' policies and practices for financially material considerations including climate change;
- Choosing fund managers who have clearly articulated policies for managing financially material considerations including climate change;
- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes and/or benchmark indices as appropriate and are satisfied that the fund managers follow an approach which takes account of financially material factors;

- For actively managed funds (where the fund manager decides where to invest), expect the fund managers to take financially material considerations into account when selecting which companies and markets to invest in;
- For passively managed funds, the Trustee recognises that the choice of benchmark dictates the assets held by each fund and that the investment manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark index (which may or may not include ESG factors) and which the Trustee believes will deliver appropriate risk adjusted returns in line with their current investment strategy. The Trustee will review periodically the choice of fund and index benchmarks used;
- For all funds, expect fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments; and
- Prefer fund managers who are signatories to the Financial Reporting Council’s Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

### Expected returns on investments

The Trustee believe that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds’ costs and charges into account).

Asset class	Expected long-term investment returns relative to inflation	Expected shorter- term volatility in fund values
Equities (i.e. company shares)	Strong return relative to inflation	Most volatile in the short-term
Property (e.g. offices, shops and warehouses)	Positive, but lower than equities	Lower than equities
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities and property	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Positive, but lower than equities, property or corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts)	In line with inflation	Lower than equities, property or corporate bonds
Cash (and other short-term interest-bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

**Long-dated Bonds** (e.g. UK Gilts and Corporate Bonds with a duration of 15 years or more) – should give fund values which move broadly in line with the financial factors influencing annuity rates.

**Multi-asset funds** (i.e. investing in a varying mix of asset classes) - should deliver positive returns relative to inflation over the longer-term, with lower short-term volatility than equities.

**Derivatives** (e.g. currency hedging) - typically to reduce shorter-term investment risks or to facilitate changing where funds are invested, should help achieve a fund’s expected levels of risk and return.

**Market beta** (i.e. funds investing in assets with certain characteristics) – the strategy of these funds is intended to give a better return over the long-term than the broader market for the type of assets involved (e.g. equities).

**Illiquid assets** (e.g. infrastructure, forestry, private equity and private debt) – seek to deliver better risk adjusted returns over the long or very long term compared to similar and more liquid assets, but these may give poor returns if they are sold in the short to medium term.

**Commodities** – are often speculative investments where values are sensitive to demand, but these may provide a degree of inflation-proofing and diversification.

**Sustainable Investment** (i.e. funds selecting assets to mitigate ESG and/or climate change risks) – the strategy of these funds is expected to give a better risk adjusted return over the long-term than the broader market for the type of assets involved (e.g. equities).

### Investment beliefs

The Trustee's investment decisions are made in the context of their investment beliefs that:

- Managing the principal investment risks is the most important driver of good long-term member outcomes;
- As the DC Section invests for members over the long-term, financially material considerations including the impact of climate change will have a bearing on funds' expected levels of risk and return;
- Investment markets may not always behave in line with long-term expectations during the shorter-term;
- Taking investment risk is usually rewarded in the long term;
- Investment risks can be reduced by spreading investments both within and across asset classes;
- Actively managed funds, where the manager chooses where to invest, may not always deliver the expected investment returns in the shorter-term;
- Passively managed funds, whose returns are intended to track a market index, may produce investment returns more efficiently than actively managed funds in some markets;
- Charges and costs (levied by fund managers and platform providers) can have a material effect on net returns.

### Investment in Illiquid Assets

The Trustee does not directly invest in illiquid investments within the default arrangement. However, within the default investment arrangement, a small percentage of assets is allocated to illiquid investments via a holding with Legal and General Investment Management, the allocation to which is delegated to the investment manager. This allocation, which is invested in real estate, and private markets credit is concentrated in the pre-retirement phases of the glidepath, generally impacting members within 5 years of their selected retirement age (e.g. members aged 60 or older aiming to retire at 65). The Trustee is confident that the investment manager is well-positioned to determine the appropriateness of holding illiquid investments at any given time.

The Trustee has noted the evolution of Defined Contribution investment strategy and recent encouragement to incorporate illiquid assets.

These developments present the potential for diversification and enhanced risk adjusted returns within the DC Section's investment strategy. However, the Trustee recognises that the decision to invest in a dedicated portfolio of illiquid assets requires careful consideration. There are inherent challenges and risks associated with illiquid investments and a thorough evaluation is appropriate before committing to such strategies. The Trustee continues to monitor the market for illiquid investment assets, their performance and associated risk attributes. This cautious stance will align any potential investment with the Trustee's risk tolerance, objectives and fiduciary duties to safeguard the interests of DC Section members.

The Trustee sets clear criteria for prospective entry into the illiquid asset market. The decision to invest will be contingent upon the products within this market reaching a level of maturity. This encompasses the establishment of a proven history of success, demonstrating the resilience and reliability of the investment options under consideration.

The Trustee has a fiduciary duty to give priority to the interests of members and any investment into illiquid assets is aligned with the DC Section's overarching strategic goals and obligations.

The Trustee is satisfied that the current default arrangement remains appropriate, is suitable for members and offers value for money to members having reviewed potential member outcomes at the last strategy review. The Trustee will continue to review the default arrangement on an ongoing basis and at the next strategy review.

### **Responsible Investing**

Responsible investing encompasses both sustainable investing (including financially material factors) and effective stewardship of the DC Section's investments. The Trustee believes that responsible investing can:

- Improve long-term investment returns;
- Reduce investment risks; and
- Support positive engagement with members.

### **Sustainable Investing**

The Trustee's investment beliefs in relation to sustainable investing are:

- Companies demonstrating positive ESG practices are expected to outperform others over the long term;
- Climate change is a material financial risk, particularly to younger members;
- Sustainable investment can improve long-term investment returns; and
- Reduce investment risks in conjunction with other financially material considerations.

### **Stewardship**

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

The DC Section offers members the default arrangement and a choice of alternative lifestyle options and self-select funds. The Trustee's stewardship activities will consider all funds used by members.

### **Members' financial interests**

The Trustee expects that the fund managers will have the members' financial interests as their first priority when choosing investments.

### **Conflicts of interest**

When appointing platform providers and choosing investment managers' funds on the provider's platform, the Trustee will seek to establish that the platform provider and each investment manager has an appropriate conflicts of interest policy in place.

When given notice the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the DC Section.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where

managers are investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

### **Voting and engagement**

The Trustee believes that engagement with the companies in which the DC Section invests through pooled investment funds, including the proactive use of shareholder voting rights, can improve the longer-term returns on the DC Section's investments.

The DC Section invests via an investment platform provider, who in turn invests in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

The Trustee will periodically review the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider to determine that these policies are appropriate. On an annual basis, the Trustee will request that the investment platform provider and fund managers provide details of any change in their house policy.

Where appropriate, the Trustee will engage with and may seek further information from the investment platform provider and fund managers on how portfolios may be affected by a particular issue.

While the Trustee is not in a position to engage directly, the Trustee believes it is appropriate for the fund managers directly or through the platform provider to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will request, where appropriate and practicable, that the platform provider or investment managers notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

The Trustee expects the investment platform provider to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The Trustee also expects the platform provider to be able to evidence their own governance practices on request. The Trustee will consider the platform provider's practices on the oversight of and engagement with the investment managers on its platform when reviewing the appointment of the platform provider.

### **Monitoring**

The Trustee expects the platform provider to monitor adherence of their investment managers to stated voting and engagement policies, engage with managers where concerns are identified and to report on these issues. The Trustee monitors the fund managers voting activity on a periodic basis.

The Trustee reviews the fund managers' voting activity annually in conjunction with their investment adviser and use this information as a basis for discussion with the investment platform provider and fund managers. Where the Trustee deems it appropriate, any issues of concern will be raised with the manager for further explanation.

The Trustee aims to meet with the major fund managers on an annual basis.

### **Types of Funds Used**

#### **Structure of the investment arrangements**

The DC Section invests contributions for members through the provider's investment platform. Contributions buy units in the provider's funds. The provider in turn backs the value of its funds by buying units in funds from a

selection of fund managers where investments are pooled with other investors. This enables the DC Section to invest in a range of funds giving a good spread of investments in a cost-effective manner.

The Trustee's contract with the provider is a policy of insurance issued by the provider. As a result, the Trustee does not have any contractual arrangement with the investment managers or title to the underlying funds' assets.

### **Delegation of investment decisions**

The investment of contributions through the provider's investment platform means that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the provider, who has in turn delegated these investment decisions to the investment managers.

### **Selection of funds**

The Trustee will invest in funds on the provider's platform which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the Trustee to ensure that they are appropriate for the needs of the DC Section.

The Trustee's choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available on the provider's platform. While the Trustee will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the DC Section's investment objectives and the Trustee's investment beliefs, this needs to be balanced against the wider benefits of access to the other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the DC Section and its members.

The Trustee will seek to engage with the platform provider to obtain funds which meet the Trustee's investment beliefs, and are expected to improve outcomes for members, but this is subject to being commercially viable for the provider and consistent with the charge cap for the default arrangement. The Trustee expects the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

### **Manager incentives**

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members. Nevertheless, the Trustee expects that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the DC Section's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will take action should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the DC Section's choice of provider to ensure

their charges and services remain competitive. The Trustee believes that these steps are the most effective way of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years of the appropriateness of the investment options at which time the suitability of the DC Section's investment management arrangements are also considered.]

The Trustee monitors the investment managers against a series of metrics on a rolling quarterly basis over a long-term time horizon including:

- Performance of their funds' respective benchmarks or performance targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

### **Portfolio turnover**

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager except where a fund's total assets under management are relatively small where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the Trustee will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider or investment managers on the platform to report on at least an annual basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the DC Section's reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the platform provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

### **Portfolio duration**

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the DC Section members' investment horizon. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will typically be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

### **Realisation of investments**

The Trustee expects that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund. Nevertheless, the Trustee recognises that most members' pension funds have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

From time to time the suspension of trading in a fund or closure of a fund by the platform provider or fund manager and resulting temporary redirection of contributions to another fund may create a temporary or unintended inadvertent default arrangement.

### **Balance of investments**

The Trustee reviews the nature of the DC Section's investment options on a regular basis, with particular reference to suitability and diversification. The Trustee considers written advice from a suitably qualified person when determining the appropriateness of each investment manager and fund for the DC Section, particularly in relation to diversification, risk, expected return and liquidity.

Overall, the Trustee's intention is that the DC Section's investment options:

- Provide a balance of investments; and
- Are appropriate for managing the risks typically faced by members.

### **Security of assets**

The funds are provided through a policy of insurance issued to the Trustee by the platform provider. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through reinsurance agreements/unit purchase agreements/segregated investment mandates. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

### **Non-financial factors**

The Trustee recognises that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustee notes that a large majority of members have not made active investment choices and so the Trustee believes that most members are unlikely to have strong views on where their savings are invested. The Trustee has therefore decided that it would not be worthwhile surveying members' views on non-financial factors relating to the DC Section's investments. The Trustee will instead take into account what, in their reasonable opinion, members' views of non-financial factors are likely to be.

The DC Section offers a choice of ethical and faith based funds for members who are likely to hold stronger views in these areas than the majority of members.

Impact investing relates to investments that are intended to have a positive and measurable environmental or social impact, alongside a financial return.

The Trustee will monitor the development and availability of funds suitable for DC which aim to have a positive impact globally.

The Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches.

Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the DC Section's investment objectives.