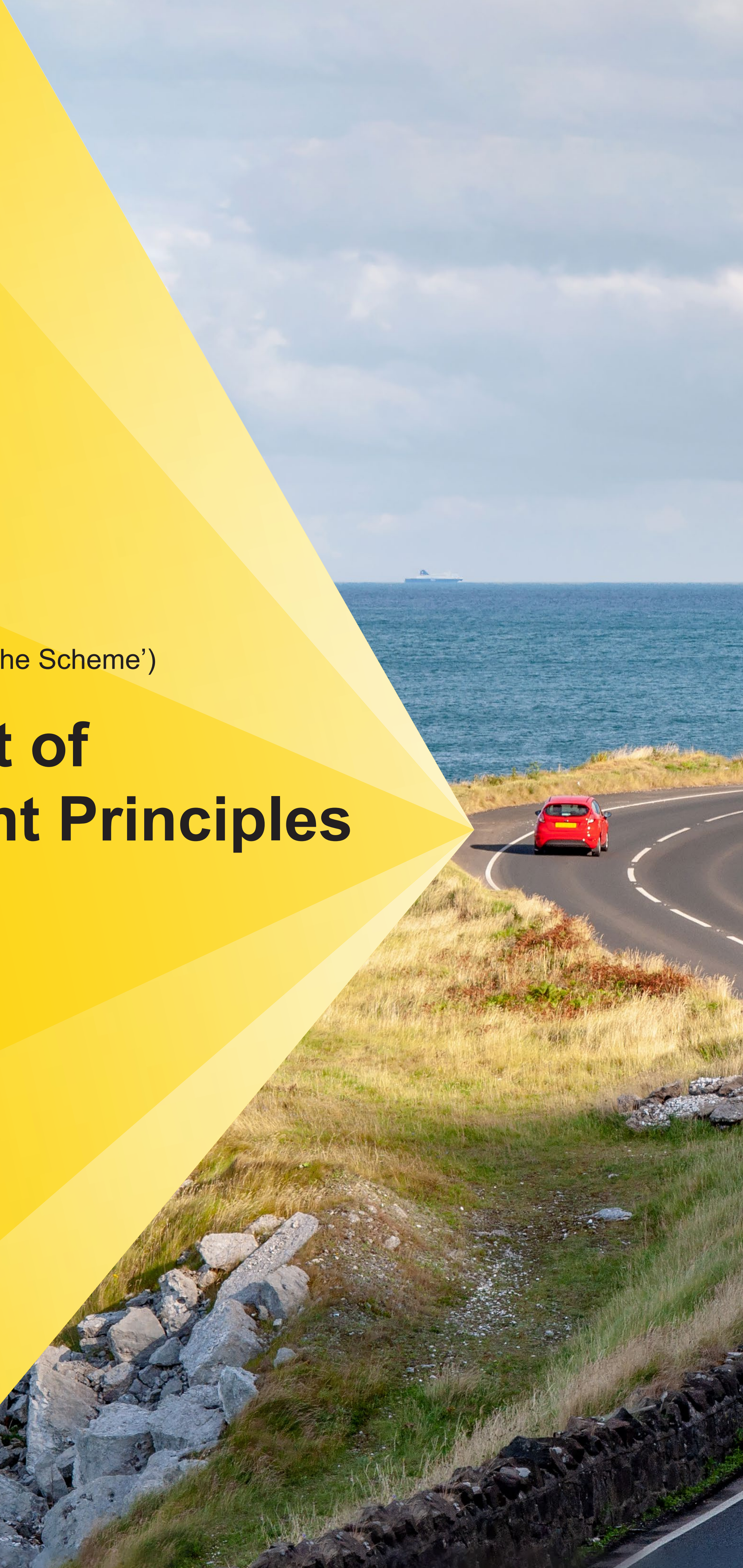
AA Pension Scheme ('the Scheme')

Statement of Investment Principles

March 2022



1. INTRODUCTION

Background

1.1
Under the Pensions Act 1995 (Pensions Act), the Directors of A.A. Pensions Trustees Limited ("the Trustee") and as amended by subsequent legislation are required to prepare a statement of principles governing investment decisions ("the Statement") of the AA Pension Scheme ("the Scheme"). This document contains that Statement.

1.2
In the process of preparing this Statement, the Trustee has:

- Consulted Automobile Association Developments Limited (AADL) ("the Sponsoring Employer") and will consult the Employer before revising this Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- Sought advice from the Scheme's Investment Consultant.
- Had regard to the requirements of The Occupational Pension Schemes (investment) Regulations 2005 when considering the suitability and diversification of investments and the Trustee will consider those requirements on any review of this Statement or any change in its investment policy. The Trustee will refer to this Statement when necessary to ensure that the Trustee exercises its powers of investment so as to give effect to the principles set out here as far as is reasonable.
- Made revisions in the light of the Myners' Principles and specifically Myners' recommendations relating to the content of Statement of Investment Principles.

1.3
Before drawing up this Statement, the Trustee has obtained and considered written advice from the Scheme's Investment Consultant – Aon Solutions UK Limited. The Trustee will review this Statement regularly, at least every three years and without delay after any significant change in investment policy.

1.4
The appendices are a key part of this Statement and provide details on the current asset allocations and investment arrangements.

1.5
Copies of this Statement have been given to the Employer and the Scheme's Investment Consultant. Future revisions will be circulated similarly.

Scheme Details

1.6
The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

1.7
Members of certain sections of the Scheme are contracted-out of the State Second Pension under the Pension Schemes Act 1993. The Scheme holds a valid contracting-out certificate.

1.8
Administration of the Scheme is managed by the Trustee, which has overall responsibility for the investment of the Scheme's assets and, at present, these are invested via a range of external managers.

1.9
In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy and delegates the responsibility for selection of specific investments to appointed Investment Managers, which may include an insurance company or companies.

The Investment Managers provide the skill and expertise necessary to manage the investments of the Scheme competently.

2. GOVERNANCE

2.1
The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skill, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities. An Investment Committee has been established to handle the majority of the investment matters and make recommendations to the Trustee where decisions are required to be taken by the Trustee.

2.2
The Trustee recognises that decisions relating to the extent of interest rate and inflation hedging within the investment strategy are of particular interest to the Employer. While ultimate responsibility for this decision rests solely with the Trustee, the Trustee will endeavour to reach agreement with the Employer before making any changes to its interest rate and inflation hedging arrangements.

2.3
The Trustee's principal responsibilities with regard to investment are:

- Reviewing the investment policy for the Scheme following the results of each actuarial review and/or asset liability modelling exercise, in consultation with the Investment Committee and the Investment Consultant.
- Consulting with the Employer and the Investment Committee before amending this Statement.
- Monitoring compliance of the investment arrangements within this Statement in connection with the investment powers which have been delegated to the Investment Committee.
- Monitoring and amending the overall governance arrangements together with the Investment Committee.

2.4
The Investment Committee's principal responsibilities with regard to investment are:

- Formulating an appropriate asset allocation policy for the Scheme for review and agreement by the Trustee.
- Reviewing, at least every three years and without delay after any significant change in investment policy, the content of this Statement and modifying it, if deemed appropriate, in consultation with the Trustee Board and the Investment Consultant.
- Appointing and dismissing Investment Managers and agreeing with them their mandates and remuneration.
- Assessing performance and strategy of the Investment Managers by means of regular, but not less than annual, reviews.
- Agreeing with the Investment Managers any restrictions that may be enacted and monitoring the agreements.
- Reviewing investment manager benchmarks, performance targets and fees on an ongoing basis.
- Agreeing with the Scheme's investment managers, when necessary, the details of investment switches within the overall rebalancing policy.
- Reviewing periodically transaction and rebalancing reports including any reports prepared in connection with large transitions.
- Reviewing periodically current standing, performance and operations of investment advisors, custodians etc.
- Appointing, or replacing, an independent performance measurer.
- Recommending potential custodians to the Trustee where felt necessary.
- Recommending the appointment, retention or replacement, of the Trustee's Investment Advisor.
- In respect of interest rate swaps contracts, appointing managers, agreeing contracts, collateral issues (including investment of and sourcing of), measuring services of managers/swaps and, if necessary, bringing swaps contracts to a premature end.

- Reviewing and considering important statutory, government sponsored or regulatory reports and recommendations in connection with pension fund investments, including reports on current topical matters, e.g. corporate governance, investment transaction costs, Socially Responsible Investing.
- Investigating and recommending potential new investment areas (e.g. alternative assets) and/or fund managers from time to time to the Trustee.
- Recommending appropriate benchmarks for ratification by the main Trustee following advice from the Investment Consultant.
- Monitoring and, where appropriate, taking action to limit the risks identified in section 11 of this Statement.
- Initiating asset/liability reviews and overseeing any changes to asset allocation strategy and fund managers ratified by the Trustee, in an efficient manner in order to minimise transition costs.
- Reporting to the main Trustee on a regular basis.
- Dealing with such other investment matters as are delegated by the Trustee.

2.5
Decisions affecting the Scheme's investment strategy will be taken with appropriate advice from the Investment Consultant along with the Trustee's other advisors. Details of current advisors and Investment Managers, along with their respective responsibilities, are provided in Appendices A and B.

2.6
The Trustee agrees with the Myners' Principle of separate competition for actuarial and investment consulting contracts. Actuarial and investment consulting services are provided by Aon.

2.7
Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Scheme. The Trustee of the Scheme draws on the skills and expertise of external advisors including the Investment Managers, the Custodian (Bank of New York Mellon) and the Investment Consultant. A schedule of their responsibilities is provided in Part B of the Investment Policy Implementation Document.

2.8
The Pensions Act 1995 distinguishes between investments where the management is delegated to an Investment Manager under a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

2.9
The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include direct investments in bulk annuity policies from Canada Life Limited and Just Retirement Limited as well as vehicles available for members' - Additional Voluntary Contributions (AVCs). When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Manager(s).

2.10
The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the Investment Managers) against the following criteria:

- The best interests of the members and beneficiaries;
- Security;
- Quality;
- Liquidity;
- Profitability;
- Nature and duration of liabilities; and

- Tradability on regulated markets.
- Use of derivatives

2.11
The Trustee's Investment Consultant has the knowledge and experience required under the Pensions Act 1995.

2.12
The Trustee expects the Investment Managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this Statement so far as is reasonably practicable.

3. OBJECTIVES OF THE SCHEME

3.1
The general investment objectives of the Scheme are:

- The acquisition of suitable assets having due regard to the risks set out in Section 11 of this Statement which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Scheme provides.
- To limit the risk of the assets failing to meet the Statutory Funding Objective, both over the long-term and on a shorter-term basis. To minimise the long-term costs of the Scheme by maximizing the return on assets whilst having regard to the objectives shown above.

3.2
The investment objectives of the Scheme are not framed relative to the performance of other pension funds.

3.3
The Trustee, and Investment Managers who have delegated discretion, exercise their powers in a manner calculated to ensure the security, quality, liquidity and profitability of the Scheme. The Trustee invests the assets in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

4. STRATEGIC ASSET ALLOCATION

Scheme Details

4.1
The Scheme's strategic asset allocation is driven by the financial characteristics of the Scheme, in particular the Scheme's liabilities and the risk tolerance of the Trustee and the Employer.

4.2
The Trustee seeks to achieve the Scheme's investment objectives through investing in a suitably diversified mix of real and nominal assets that takes account of investment risk and return. The Trustee ensures that the majority of the assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level.

4.3
The Scheme's strategic asset allocation has been set following an asset/liability review which considered the full range of investment opportunities available to the Scheme, including an assessment of all the major asset classes and some alternative asset classes.

4.4
In setting the investment policy, the Trustee has had regard to the influence that this will have on the Statutory Funding Objective and the likelihood of this measure falling below 100%.

4.5
The Trustee's policy is to make the assumption that equities will probably outperform gilts over the long term and assumes that active investment management can be expected to add value. The Trustee also recognises the potential volatility in equity returns, particularly relative to the Scheme's liabilities.

4.6
The Trustee considers its policy concerning compliance with the Statutory Funding Objective under the Pensions Act 2004 in light of the results of each formal actuarial valuation.

4.7
The Trustee also holds an interest in AA Pension Funding Limited Partnership (a Scottish Limited Partnership formed under the Limited Partnerships Act 1907). This asset provides an income stream that is payable through an interest in AA Pension Funding Limited Partnership, which will hold a loan note due in 2038) (twenty five year loan note at time of issue)backed by royalties payable in respect of the AA brand (owned by AA Brand Management Limited). The Scheme's direct involvement in the structure will be as a Limited Partner.

Diversification

4.8
The choice of the strategic asset allocation benchmark specified in Part C of the Investment Policy Implementation Document.is designed to ensure that the Scheme's investments are adequately diversified.

4.9
The Trustee uses, or permits the Investment Managers to use, derivative instruments if they contribute to a reduction of risks or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Suitability

4.10
The Trustee has taken advice from the Investment Consultant to ensure that the benchmark specified in Part C of the Investment Policy Implementation Document.is suitable for the Scheme given its liability profile.

4.11
Direct investments in the sponsor are limited to a maximum of 5% of total Scheme assets.

4.12
The Trustee has received legal advice that its interest in the AA Pension Funding Limited Partnership does not constitute an employer-related investment for the purposes of the Pensions Act 1995

Liquidity

4.13
The Trustee, together with the Scheme's administrators, will ensure that they hold sufficient cash to meet the likely benefit payments from time to time. The Trustee's policy is that there should be sufficient investments in liquid and readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Scheme's overall investment policy.

4.14
In addition, the Trustee will review its investment policy in light of actuarial valuations of the Scheme.

Additional Voluntary Contributions (AVCs)

4.15
The Scheme no longer provides a facility for members to pay AVCs into the Scheme. The current providers for members that have previously paid AVCs into the Scheme are The Prudential Assurance Company Limited ('Prudential') and Utmost Life and Pensions ('Utmost') (transferred from Equitable Life, on 1 January 2020). The Trustee's objective is to provide a range of funds which will provide a suitable long term return for those members, consistent with members' reasonable expectations. In keeping with their policy for the main Scheme assets, the Trustee's policy is to seek to achieve the objective through offering to members a suitable mixture of real and monetary assets. The performance of Prudential and Utmost is monitored and compared to that of other AVC providers by the Scheme Trustee.

5. MANAGER STRUCTURE

5.1
The Trustee has considered the use of both passive and active investment management when developing and reviewing the Scheme's strategy. The resultant allocation to active and passive management is formed following a consideration of the efficiency (risk/return balance), liquidity and level of transaction costs likely to prevail within each market as well as the impact of the Investment Manager fees on future expected (net) returns.

5.2
The Trustee employs a number of Investment Managers to promote adequate diversification by investment management organisation and investment style.

5.3
In 2010 the Trustee delegated certain decision making powers and investment management of some of the assets to Aon Investments Limited (formerly Hewitt Risk Management Services Limited Delegated Consulting Service (DCS)). In 2010, a 15% strategic allocation was made to the multi-asset DCS portfolio, which invested in the delegated liability fund (DLF) and Delegated Growth Fund (DGF). The DLF invested in liability matching assets and the DGF invested in growth assets. A 5% strategic allocation was made to DCS to invest in alternative asset classes only. In 2012, the Trustee made a 6% strategic allocation to a separate DLF mandate to increase inflation hedging on the portfolio. A further 9% strategic allocation was made to a separate DGF to further diversify risk. In 2014, after carrying out an investment strategy review the Trustee decided to further diversify away from equities and allocated a further 10% strategic allocation to the multi-asset DCS portfolio. In the second half of 2015 it was agreed by the Trustee that the four separate DCS mandates would be consolidated into one.

In 2021, the Trustee re-registered 5 illiquid holdings and 4 UK Core Property Funds from being held within DCS, in to the name of the Trustees. This strategic decision had no bearing on the underlying investments but passed ownership and control of the assets to the Trustees. The Trustee also instructed DCS make no further reallocation to illiquids and UK Core Property, with any new investments made by the Trustee on an advisory basis.

In 2020/2021, the Trustee also reviewed the delegated structure and appointed manager. The Trustee concluded that in the near term 90% of the delegated holding would be managed by Aon Investments Limited and 10% would be managed by Kempen Capital Management with the intention of making a longer term decision on the delegated manager in the next year. The onboarding of Kempen took place over Q4 2021.
Further details can be found in Part D of the Investment Policy Implementation Document.

5.4

The Investment Managers have been set mandate-specific benchmarks which have clear performance objectives attached. No peer group-type benchmarks are employed. Where appropriate, explicit risk parameters have been developed to which the Investment Managers are expected to adhere and against which they will be monitored. The overall benchmark specified is designed to ensure that the Scheme's investments are adequately diversified and suitable for the Scheme given its liability profile, funding level and covenant of the Employer.

5.5
The Investment Managers should demonstrate that the skill they exercise in managing the portfolio and the process that they follow are both consistent with these objectives given the level of risk adopted. The current Investment Manager structure and performance targets are attached in Part E of the Investment Policy Implementation Document.

5.6
The Investment Managers are paid a fee for their services. These fees are a combination of ad valorem fees paid on the basis of assets under management and performance related fees.

5.7
In 2018, the Trustee invested some of the Scheme's gilts into a "pensioner buy-in" annuity contract from Canada Life Limited, an insurance company, to secure some of the liabilities. This investment is held specifically to provide an accurate hedge against the individual liabilities of part of the Scheme membership, and is only expected to be replaced if eventually converted to individual annuity contracts for these members. In September 2019, the Trustee invested in a second buy-in transaction with Just Retirement Limited and again it is held specifically to provide an accurate hedge against the individual liabilities of a similar profile of the Scheme membership.

Soft Commissions

5.8
The Investment Managers may not directly or indirectly carry out any transactions on behalf of the Scheme which accrue benefits to them under any Soft Commission Agreement.

6. RESPONSIBLE INVESTMENT

6.1
In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their Investment Consultant when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

6.2
As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and exercise the Trustee's voting rights in relation to the Scheme's assets. The Trustee recognises the importance of their 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 this ultimately creates long-term financial value for the scheme and its beneficiaries.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the Investment Consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent investment manager is found to be falling short of the standards the Trustee has set out in their policy, as set out in this document, the Trustee undertakes to engage with the investment manager and seek a more sustainable position but may look to replace the investment manager.

The Trustee will engage with investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned

6.3
The Trustee supports the Codes on the corporate governance of UK companies and accordingly expects its appointed Investment Managers to comply with these Codes. Voting should fully consider the "comply or explain" basis of the Codes, with explanations given by companies for non-compliance. The Trustee would also expect the Investment Managers always to exercise their voting rights in UK companies, including when appropriate by registering "votes withheld". Regarding non-UK companies, the Trustee expects the Investment Managers similarly to vote its shares where it is practicable to do so taking account of recognised best practice in corporate governance in the country or market concerned.

6.4
On issues not covered by the UK Corporate Governance and Stewardship Codes, or similar overseas best practice guidance, the Trustee would expect the Investment Managers to vote actively on contentious issues, with the objective of securing the best outcome for the shareholders generally and, where appropriate, setting an example that is appropriate to other companies.

6.5
The Trustee would expect that the Investment Managers should always vote in the best interests of the investee company and never vote in any way that is influenced by their own interests, e.g. because the investee company concerned has a pension fund where the assets are managed by certain Investment Managers.

6.6
The Trustee expects Investment Managers to report to it, when voting on contentious issues, particularly on difficult issues of a fundamental or far reaching nature. The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the investment manager.

6.7
The Trustee generally considers that the responsibility of owning shares in companies carries with it the obligation to exercise shareholder rights in a responsible and proactive way, as this is in the general interests of the shareholder community in which the Trustee must participate as a significant investor.

Members' Views and Non-Financial Factors

6.8
In setting and implementing the Scheme’s investment strategy the Trustee does not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

7. MONITORING

7.1
The financial performance of the Investment Managers will be measured by the Custodian. The Investment Consultant will prepare a summary report on a quarterly basis, detailing the financial performance of the Investment Managers. This report will also cover any developments of significance within each of the investment organisations.

7.2
The Investment Committee holds regular meetings with the Investment Managers to satisfy it, that the Investment Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

7.3
The Trustee is assisted by manager research undertaken by the Investment Consultant.

7.4
The appointment of Investment Managers will be reviewed by the Investment Committee and the Trustee at least every three years and without delay after any significant change in investment policy. This will be based on the results of its monitoring of performance and process and of the Investment Manager's compliance with the requirement in the Pensions Act concerning diversification and suitability where relevant.

8. ARRANGMENTS WITH INVESTMENT MANAGERS

8.1The Trustee monitors the Scheme investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee policies. This includes monitoring the extent to which 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 is supported in this monitoring activity by their Investment Consultant.

The Trustee shares the policies, as set out in this Statement, with the Scheme's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee policies.

Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee policies. Where necessary, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, the Trustee will express its expectation to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the Trustee's appointed investment managers to make decisions that align with the Trustee's policies, and are based on assessments of medium- and long-term financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

9. MONITORING OF INVESTMENT MANAGER COSTS

9.1

The Trustee is aware of the importance of monitoring the 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 other costs incurred by investment managers that can increase the overall cost incurred by their investments.

The Trustee will receive annual cost transparency reports from their Investment Consultant in conjunction with ClearGlass, whom the Trustee has engaged with to collect Scheme information on a consistent basis. These reports present information in line with prevailing regulatory requirements for investment managers and allows the Trustee to understand exactly what they are paying to their investment managers. The reports clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Scheme;
- The fees paid to the investment managers appointed by the Trustee;
- The amount of portfolio turnover costs (transaction costs) incurred by investment managers;
- Any charges incurred through the use of pooled funds (custody, admin, audit fees etc)
- The impact of costs on the investment return achieved by the Scheme.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The investment managers monitor the level of portfolio turnover (defined broadly as the amount of purchases plus sales). The Scheme's Investment Consultant monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns.

10. EVALUATION OF INVESTMENT MANAGER PERFORMANCE AND REMUNERATION

10.1

The Trustee will assess the (net of all costs) performance of their investment managers on a rolling three-year basis against the Scheme's investment objectives as per the investment strategy review following triennial actuarial valuation.

The Trustee will consider advice as necessary from their Investment Consultant on the ongoing suitability of the terms of investments, including the ongoing reasonableness of remuneration paid to managers in light of fees for other similar quality investment funds.

11. RISK MANAGEMENT

11.1
The Trustee recognises a number of risks involved in the investment of the assets of the Scheme and continues to monitor these risks:

Solvency risk and interest rate and inflation mismatching risk:

- Measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to current and alternative investment policies (for example, using risk budgeting).
- Managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategy, through the choice of the benchmark and through ongoing triennial actuarial valuations.

- Managed through holding assets, such as gilts, index linked gilts and the multi asset DCS mandate which hedge against some of the interest rate and inflation risk associated with the liabilities.
- Current target hedge ratios for interest rate and inflation hedging are around 80% of the risks measured on the low-dependency basis, and the target hedge ratios are intended to increase in future in line with the low-dependency funding level. Actual hedge ratios are expected to be within the range + / - 5% of the target hedge ratios.

Corporate governance risk:
- Measured by the level of concentration in individual stocks, thereby reducing the risk of possible negative investment values.

Sponsor Risk:
- Measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit.
- Managed through assessing the interaction between the Scheme and the Employer's business.

Manager Risk:
- Measured by the expected deviation of the prospective risk and return, as set out in the Investment Managers' objectives in Part E of the Investment Policy Implementation Document.
- Managed through the diversification of the Scheme's assets across a range of Investment Managers with different styles, the ongoing monitoring of the Investment Managers and the negotiation of Investment Management Agreements.
- The risk of a default by the annuity providers, Canada Life Limited and Just Retirement Limited, with whom bulk annuities are held. The Trustee and its advisors actively considered the strength of the insurers before entering into the policy whilst also considering the wider regulatory framework within which insurers are required to operate. The Trustee and its advisers will continue to monitor Canada Life Limited and Just Retirement Limited as well as the broader annuity market environment from time to time.

Liquidity Risk:
- Measured by the level of cashflow required by the Scheme over a specified period.
- Managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Market Risk:
- Measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from country specific issues.
- Managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Counterparty Risk:
- Measured by the exposure to each counterparty as a percentage of the overall exposure.
- Managed by transacting with a wide range of counterparties, transacting only with reputable organisations that are regarded as having good credit and undertaking regular monitoring and reviews of all counterparties.

Custody Risk:
- Measured by assessing the Custodian's ability to settle trades on time and provide secure safekeeping of the assets under custody.
- Managed through the agreement with the third party Custodian and ongoing monitoring of the custodial arrangements and discussing the performance of the Custodian with the Investment Managers when appropriate. Restrictions are

applied to who can authorise transfer of cash and the account to which transfers can be made.

Cash Risk:

- Measured for the Scheme through the guidelines with the Investment Managers with respect to their policy on diversification of cash deposits.
- Managed through investment in liquidity funds with the custodian and cash holdings via the Trustee bank.

Currency Risk:

- Measured through diversification of the Scheme's overseas assets across a range of currencies.
- Managed through the Scheme's currency hedging programme.

Conflict of Interest Risk:

- The Trustee recognises that the Scheme's Investment Consultant – Aon has a policy on managing conflicts of interest and the Trustee has satisfied itself that Aon have sufficient safeguards in place to protect the Trustee from conflicts.

12. CONFIRMATION OF APPROVAL

Dated: March 2022

Agreed for and on behalf of The Trustee of the AA Pension Scheme