AA Pension Scheme

Statement of Investment Principles

21 June 2024

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Contents

Introduction

1.1. This is the Statement of Investment Principles prepared by the Directors of AA Pension Trustees Limited as Trustee of the AA Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustee has consulted Automobile Association Developments Limited (AADL), the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

1.4. The Trustee will review this statement at least every three years or without delay if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Clause 14 of the Definitive Trust Deed & Rules, dated 1 March 2015. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.

2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives. As a result, the Trustee's main investment objectives are:

- The acquisition of suitable assets having due regard to the risks set out in Section 6 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 maximising the return on assets whilst having regard to the objectives.

3.2. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives. The Trustee ensures that the majority of assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level. 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.

4.2. 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

4.3. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within the Appendix to this Statement.

5.2. The Trustee consider the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendix to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate any short-term cashflow requirements or any other unexpected items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures and funding level changes.

6. Risks

6.1. The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustee will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the Principal Employer and the size of the pension liability relative to the Principal Employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis. The current target hedge ratios for interest rate and inflation hedging are around 66% 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.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustee.
Investment manager risk	The Trustee monitors the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate. There is a 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.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitor these and will report on the managers' practices in their annual Implementation Statement.

Counterparty Risk	The Trustee measured the exposure to each counterparty as a percentage of the overall exposure. The Trustee will reduce counterparty risk 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.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material and will continue to develop its policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities, thereby reducing the risk of possible negative investment values.
Liquidity risk	The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee undertakes an annual review of the internal controls and processes of each of the investment managers.
Leverage risk	The Scheme invests in leveraged assets. The Trustee assesses the leverage risk by measuring the level of derivative contracts utilised in the portfolio and the cash / readily liquid assets available to meet collateral calls associated with derivative contracts.
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.
Custody risk	The Trustees will assess 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.

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

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. Having established the investment strategy, the Trustee monitors the performance of each investment manager against an agreed benchmark as frequently as appropriate according to market conditions and the Scheme's funding position.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers. The Trustee has considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

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

9.1. The Trustee has set policies in relation to these matters. These policies are set out in the Appendix.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment polices

10.1. Prior to appointing an investment manager, the Trustee discusses the investment manager's approach to the management of Environmental, Social and Governance ("ESG") and climate related risks with the

Scheme's investment consultant, and how their policies are aligned with the Trustee's own investment beliefs.

10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

10.3. The Trustee carries out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that an investment manager ceases to meet the Trustee's desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustee.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Stewardship priorities

10.6. Following training sessions and consideration of data and trends, the Trustee has agreed that the impact of environmental and climate issues may be financially material for the Scheme. In addition, the Trustee expects their relevant asset managers to be able to evidence their stewardship activity in this area which the Trustee will monitor annually, for example, by considering the voting and engagement activity of the asset managers. Therefore, this is also an area which the Trustee believes they can meaningfully monitor progress and engage with their asset managers over time. The Trustee recognises that the Scheme has exposure to multiple systemic risks but have chosen environment and climate as the current stewardship priorities. The Trustee will periodically review the stewardship priorities of the Scheme to ensure they remain appropriate.

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

10.7. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustee acknowledges this in their investment management arrangements.

10.8. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustee expects this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

10.9. The Trustee expects investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

10.10. The Trustee monitors the performance of their investment managers over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.11. The Scheme invests predominantly in a segregated mandate and closed ended funds. The Scheme invests in some pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less. In some instances, a performance fee may also be applied.

10.12. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.13. 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 managers. 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

Portfolio turnover costs

10.14. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.

10.15. During the investment manager appointment process, the Trustee may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.16. Aside from the closed-ended funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

10.17. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

10.18. For closed ended funds, the Scheme reviews the appointment with the investment manager as the manager releases new iterations of the funds (which the Trustee may consider further investment into) and at, or just prior to, maturity of the closed-ended fund.

Fiduciary Management

10.19. The Trustee has appointed Van Lanschot Kempen Investment Management (UK) Limited ("VLK") to manage part of the Scheme's assets on a discretionary basis. The balance within and between these investments will be determined from time to time at the discretion of VLK, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustee. VLK's discretion is subject to requirements set by the Trustee in the Investment Guidelines (between the parties as amended from time to time). In exercising investment discretion, VLK is required to act in accordance with its obligations in the Fiduciary Management Agreement, including the requirements and any investment restrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in this SIP. This ensures appropriate alignment of decision-making with the Trustee's overall objectives, strategy and policies. The Scheme has delegated to VLK to determine the asset allocation and select appropriate benchmarks, from time to time.

11. Agreement

11.1. This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Principal Employer, the investment managers, the Scheme Actuary and the Scheme auditor upon request.

Signed:  **Date** 2 July 2024

On behalf of the AA Pension Scheme

Appendix 1 Note on investment policy of the Scheme in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Scheme has a strategic asset allocation as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

<table>
<tr><th>Objective</th><th>Mandate</th><th>Fund Manager</th><th>Allocation (%)</th></tr>
<tr><td>To hedge liabilities against changes in interest and inflation on a low dependency basis</td><td>LDI Mandate</td><td rowspan="2">Insight Investment</td><td rowspan="2">40%</td></tr>
<tr><td>To provide sufficient collateral to support the LDI mandate</td><td>Collateral pool</td></tr>
<tr><td>To improve the funding level to a sufficient target on a low dependency basis</td><td>Liquid Growth</td><td>Van Lanschot Kempen</td><td rowspan="2">60%</td></tr>
<tr><td>To improve the funding level to a sufficient target on a low dependency basis</td><td>Illiquid growth</td><td>Various</td></tr>
</table>

Rebalancing

The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

2. Choosing investments

The Trustee has appointed the following investment managers to carry out the day-to-day investment of the Scheme:

- Adept Investment Management plc;

- Alcentra Limited;
- Antin Infrastructure Partners;
- Arcmont Asset Management Limited;
- Ares Management Corporation;
- BlackRock Investment Management (UK) Limited;
- BlackRock Private Equity Partners;
- Blackstone Capital Holdings L.P.;
- Brockton Everlast Inc;
- Brookfield Infrastructure Partners;
- BV Investment Partners;
- Clearbell Capital LP;
- CVC Capital Partners;
- DRC Savills Investment Management;
- EMK Capital;
- Fidera Vecta Limited;
- Global Infrastructure Partners;
- GreenOak UK;
- Insight Investment Management;
- Invesco Asset Management Limited;
- Keyhaven Capital Partners Limited;
- Leadenhall Capital Partners LLP;
- M&G PLC;
- Quellos Group LLC;
- Securis Investment Partners LLP;
- Taconic Capital;
- Van Lanschot Kempen Investment Management (UK) Limited; and
- Warburg Pincus LLC.

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.

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

AVCs

The Scheme no longer provides a facility for members to pay Additional Voluntary Contributions ("AVCs") into the Scheme. The Trustee has AVC contracts with Prudential Assurance Company Limited ('Prudential') and Utmost Life and Pensions ('Utmost') (transferred from Equitable Life, on 1 January 2020).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

Bulk annuity contracts

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.

3. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation more in line with the target asset allocation.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially Material Considerations

The Trustee considers that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material for the Scheme over the length of time during which the benefits provided by the Scheme for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be not less than five years from the date of this Statement of Investment Principles.

The choice of underlying funds is made by the Trustee after taking advice from their investment consultant. The Trustee, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustee takes those factors into account in the selection, retention and realisation of investments as follows:

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

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

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

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

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

- The Trustee will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Through their investment consultant the Trustee will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

2. Non-financially material considerations

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 qualify of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

3. The exercise of voting rights

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustee will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's Investment Consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their Investment Consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code. 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.

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.

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.

4. Engagement activities

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

The Trustee is of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

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

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

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

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustee has made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

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

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

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