IET Superannuation & Assurance Scheme (“the Scheme”) Statement of Investment Principles

INVESTMENT OBJECTIVE

The Trustees aim to invest the assets of the Scheme prudently to ensure the benefits promised to members are provided. In setting investment strategy, the Trustees first considered an asset allocation that would result in a low investment risk relative to the Scheme’s expected liabilities. This asset allocation would have generated low investment returns and would have made it more likely that the Scheme would fail to meet its long-term obligations. The Trustees have adopted an asset allocation strategy that is designed to achieve a higher investment return, while maintaining a prudent approach and providing a framework within which investment risk can be reduced as the funding position relative to the Scheme’s long-term liabilities improves.

INTRODUCTION

This document represents the Scheme's Statement of Investment Principles ("SIP") which the Trustees are required to maintain pursuant to the provisions of the Pensions Act 1995 as subsequently amended.

The Trustees are required to keep the SIP under review and to amend it to reflect any material change in investment strategy, having taken advice from a suitably qualified source.

STRATEGY

The Trustees have adopted an investment strategy that involves passive management of a portfolio of equities and Liability Driven Investment ("LDI") alongside an actively managed Multi-Asset Credit ("MAC") fund and bulk annuity insurance contracts written on most of the pensioner liabilities.

In a passive arrangement the fund manager seeks to replicate the index return rather than to add additional returns through active stock selection. Passive management, or index tracking, involves much lower investment management fees and costs are reduced further by consolidating the equity and LDI investments in a single mandate with BlackRock, one of the UK's largest managers of passive funds.

The allocation to the MAC fund managed by M&G Investments is intended to provide genuine diversification from the existing equity allocation and invest across the credit fixed income spectrum to add value through active management. The LDI allocation seeks to reduce risk by protecting against most of the interest rate and inflation risk on the non-insured liabilities. This involves the use of tools such as gilt repurchase agreements ("repo") and swaps to increase protection in a capital efficient way.

The Trustees recognise that investment strategy has to achieve a balance between the need to secure future cash flows through matching assets (such as LDI and annuities) in order to meet future pension payments and the need to generate higher long term returns through growth assets (such as equities). Generating higher returns than matching assets will both reduce the overall long-term funding costs of providing pensions and offer some protection against the possibility that the actual cost of pensions paid proves to be higher than expected – for example, if the Scheme's active or deferred members enjoy further improvements in life expectancy.

The Trustees will consider increasing the proportion invested in matching assets over the coming years driven by two factors:

- The overall level of Scheme funding relative to liabilities
- The passage of time to reflect the increasing maturity of the Scheme

The Scheme also holds a separate with profits fund, the Aviva Life & Pensions UK Limited Provident Mutual Sub Fund and this includes underwritten investment returns and favourable guaranteed annuity rates for a small portion of the liabilities.

Decision taking

When making decisions on investment strategy and asset choice, the Trustees consider written advice from their investment advisers and in doing so address the following:

- The need to consider a full range of asset classes
- The risks and rewards of a range of alternative asset allocation strategies
- The suitability of each asset class
- The need for appropriate diversification

In order to ensure that decisions are taken in a timely manner, the Trustees work with their advisers to oversee the timing and implementation of the agreed investment strategy and to instruct the appointed manager to execute asset allocation switches.

GOVERNANCE

The Trustees are responsible for the investment of the Scheme's assets. The Trustees take some decisions themselves and delegate others to the appointed fund manager. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate knowledge and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

Trustees ■ Monitor actual returns versus Scheme investment objective. ■ Set structures and processes for carrying out their role. ■ Select and monitor planned asset allocation strategy. ■ Select and monitor direct investments controlled by them. ■ Monitor the investment advisors and the fund managers. ■ Monitor and implements asset changes in accordance with agreed strategy. ■ Instruct managers to execute asset switches.
Investment Adviser ■ Advises on all aspects of the investment of the Scheme assets, including implementation and monitoring. ■ Advises on this statement. ■ Provides training as required.
Fund Managers ■ Operate within the terms of this statement and the written contracts in place. ■ Select individual investments with regard to their suitability and diversification. ■ Advise the Trustees on suitability of the indices in its benchmark. ■ Notify the Trustees of any significant changes to the funds or investment process of the investment funds available to the trustees.

The Pensions Act 1995 distinguishes between investments which are owned by the Trustees on behalf of the Scheme, where the management is delegated to a fund manager under a written contract and those where a product is purchased by the Trustees without a contract. The latter are defined as direct investments. The Trustees have concluded that the BPL insurance policy constitutes a direct investment, even though it has technically been arranged in the context of an investment management agreement.

The Trustees are required to review any direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. The Trustees are satisfied that their investment adviser, Aon Solutions UK Limited, has the knowledge and experience required by the Pensions Act 1995 to perform this role.

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their contracts and to give effect to the principles set out in this statement in so far as is reasonably practicable.

RISK

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustees have identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustees and their advisers considered this mismatching risk when setting the investment strategy. The intention to increase the matching asset weighting over time is intended to address this risk.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustees and their advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the possibility that this occurs.
- The risk that the strategic asset allocation does not achieve the long term rates of return assumed by the Trustees ("strategic asset allocation risk"). This risk was considered by the Trustees and their advisors when determining the initial strategic asset allocation and on an ongoing basis thereafter.
- The failure by the fund manager to achieve the rates of investment return assumed by the Trustees (“manager risk”). This risk was considered by the Trustees and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustees and their advisers considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s sponsoring employer (“covenant risk”). The Trustees and their advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy. In addition, the Trustees have a priority charge over a segregated part of the Sponsors own investment portfolio, which provides the Trustees with additional security if the financial position of the Sponsor were to significantly deteriorate.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme’s liabilities and implemented it using reputable fund managers, the Trustees’ policy is to monitor progress on a regular basis. The Trustees receive periodic reports showing:

- Actual funding level versus updated estimates of the present value of the liabilities.
- Performance versus the Scheme investment objective as reported by the fund managers.
- Any significant issues with the fund managers that may impact on its ability to meet the performance target set by the Trustees.

IMPLEMENTATION

The Trustees have appointed Aon Solutions UK Limited as their investment Adviser. Aon Solutions UK Limited operates under an agreement to provide a service which seeks to ensure the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. Aon Solutions UK Limited is paid on a fixed fee basis for the core advisory work it undertakes for the Scheme. The Trustees may negotiate fixed fees or other arrangements for specific projects outside of the core services. The current structure has been chosen because the Trustees believe it provides cost effective, independent advice.

The Trustees review the SIP at regular intervals and immediately following any significant change in investment policy. The Trustees take independent advice and consult the employer over any changes to the SIP.

The Scheme's assets are invested in bulk annuity contracts underwritten by Just Retirement and Pension Insurance Corporation and unit linked life insurance policies issued by BlackRock Pensions Limited ("BPL"), which constitute direct investments as defined by the Pensions Act. The M&G Investments MAC allocation is structured within an Irish registered Qualifying Investor Alternative Investment Fund ("QIAIF"). This also constitutes a direct investment as defined by the Pensions Act. The investments underlying the BPL policy are represented by allocations of units in a range of index-tracking pooled funds managed by another company within the BlackRock Group, BlackRock Advisors (UK) Ltd ("BlackRock"). The mix of units held is designed to track the structure of the Scheme's benchmark within close tolerances and periodic adjustments are made by BlackRock to achieve this. The value of the BPL policy reflects the value of the underlying units and its performance can be expected to track that of the benchmark indices very closely, without any material deviation.

Custody of the investments held within the underlying funds is the responsibility of the fund managers and is arranged by them. The Trustees have a separate agreement with BNY Mellon who facilitate certain administrative aspects of the relationship between BlackRock and the underlying pooled fund transfer agents.

COST TRANSPARENCY

The Trustees recognise the importance of monitoring the level of investment costs incurred in the management of their assets and the impact these can have on the value of the assets.

Cost Transparency

The Trustees are aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by its asset managers that can increase the overall cost.

The Trustees collect annual cost transparency reports covering all of its investments and ask that the investment managers provide this data in line with the appropriate Cost Transparency Initiative (“CTI”) template for each asset class. This allows the Trustees to understand exactly what it is paying its investment managers.

The Trustees will only appoint investment managers who offer full cost transparency via the CTI templates to manage assets of the Scheme. This will be reviewed before the appointment of any new managers and includes the existing managers held by the Scheme.

Portfolio Turnover

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a reasonable level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency the mandate will be reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Scheme's investment consultant monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags to the Trustees where there are concerns.

ARRANGEMENTS WITH ASSET MANAGERS

The Trustees regularly monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with Trustees' policies. This includes monitoring the extent to which asset managers:

- Make decisions based on assessments about medium- to long-term financial performance 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 Trustees are supported in this monitoring activity by their investment consultant.

The Trustees receive regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives, and assess the asset managers over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports the Trustees in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the Scheme's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees' policies.

Before appointment of a new asset manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustees will express their expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

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

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

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

The Trustees do not regularly monitor asset managers against non-financial criteria of the investments made on their behalf

RESPONSIBLE INVESTMENT (INCLUDING ENVIRONMENTAL, SOCIAL AND GOVERNANCE "ESG" CONSIDERATIONS)

In setting investment strategy, the Trustees' primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking return that is consistent with a prudent and appropriate level of risk. The Trustees believe that to fulfil this commitment and to protect and enhance the value of the Scheme's investments, they must act as a responsible steward of the assets in which the Scheme invests.

The Trustees further acknowledge that an understanding of financially material considerations including ESG factors (such as climate change) and risks related to these factors can contribute to the identification of investment opportunities and financially material risks over the time horizon for the future funding of the Scheme (which may be decades subject to any buy-ins and buy-outs that may be entered into).

The Trustees expect that, as part of their delegated responsibilities, the investment managers consider ESG factors (including long-term risks posed by sustainability concerns such as climate change) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgements to these issues but should consider the sustainability of business models that are influenced by them.

The Trustees are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustees will have periodic training to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.
- The Trustees will use ESG ratings and research information provided by Aon, where relevant and available, to monitor the level of the investment managers' integration of ESG considerations into their investment process and philosophy.
- Regarding the risk that ESG factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly, the Trustees consider this risk by taking advice from their investment adviser, when selecting investment managers and when monitoring their performance.
- The Trustees will include ESG-related risks, including climate change, on the Scheme's risk register as part of ongoing risk assessment and monitoring.

Stewardship – Voting and Engagement

The Trustees recognise 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 ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustees regularly review the suitability of the Scheme's appointed asset managers and takes advice from their 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 manager is found to be falling short of the standards the Trustees have set, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustees review the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustees will review the alignment of the

Trustees' policies to those of the Scheme's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

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

It is the expectation of the Trustees that the Scheme's asset managers will actively monitor environmental, social and governance risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

The transparency offered for engagements should include objectives and relevance to the Scheme, method of engagement, progress and perspectives around shortcomings, outcomes to date, escalation points and procedures as necessary. 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 and/or votes were abstained.

Where voting is concerned, the Trustees expect their asset managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an asset manager or other stakeholders. The Trustees may engage with the asset manager and other stakeholders on matters concerning an underlying asset, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the investment strategy the Trustees act for members as a whole. Given the primary fiduciary duty to secure member benefits as well as the significant practical and cost implications, the Trustees do not explicitly take into account the views of individual 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" in the relevant regulation).