Statement of Investment Principles (SIP) for the Ahli United Bank (UK) Pension Fund (the "Fund")

June 2024

1. Introduction

This SIP sets out the policy of the Trustees of the Fund ("the Trustees") on various matters governing decisions about the investments of the Fund, which is a Defined Benefit ("DB") Scheme. This SIP replaces the SIP dated June 2023.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Fund's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Fund and the principles contained in this SIP. The Trustees have consulted with the relevant employer in producing this SIP.

This SIP contains the information required by legislation, and also considered the Pension Regulator's guidance on investments.

The Trustees will review this SIP from time to time and, with the help of their advisers, amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

- **Appendix 1** sets out details of the Fund's investment governance structure, including the key responsibilities of the Trustees, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustees' policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Fund's investment manager arrangements.

2. Investment objectives

The primary objective is to ensure that the Fund should be able to meet benefit payments as they fall due. To achieve this, the Trustees have entered into a bulk annuity contract with Aviva Life & Pensions UK Limited ("Aviva") which matches the pensions payable to all of the Fund's deferred and pensioner members. The annuity policy is a "full buy-in" and therefore remains an asset of the Fund.

The only other remaining investments are a liquidity holding managed by Legal & General Investment Management, some residual holdings in cash and a small legacy holding in property.

3. Considerations in setting the investment arrangements

When deciding how to invest the Fund's assets, the Trustees consider a number of risks, including those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for their relative importance.

To meet the Fund's objectives, the Trustees took into account the following:

- the Fund's cash flow requirements;
- the best interests of all members and beneficiaries;
- the profile of the benefit cash flows, the funding level, and the strength of the employer;
- the circumstances of the Fund, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant; and
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken.

The Trustees' key investment beliefs, which influenced the setting of the investment arrangements, are as follows

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

4. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments. Details of the investment managers are set out in Appendix 3.

The Trustees have signed an agreement transferring the liability for paying member benefits to Aviva, an insurance company authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA"). Details of the Fund's annuity provider are set out in Appendix 3.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to give effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Fund's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well the role it plays in helping the Fund meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund's investment mandates.

5. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Fund within the portfolios that they manage, and in considerations relating to the liquidity of investments.

The Trustee's annuity provider, Aviva, has liability for paying the benefits of the members of the Fund. At present, Aviva pays the pension payroll into the Trustee bank account, with the Fund's administrator processing the payments.

When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of additional cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. In general, the Trustees' policy is to use cash holdings to meet any additional liquidity requirements.

6. Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention, and realisation of investments, given the time horizon of the Fund and its members. The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and process to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not take into account any non-financial matters (ie matters relating to ethics and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

7. Voting and engagement

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time the Trustees may review how these are implemented in practice.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to do so – in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees expect the managers to communicate their policies on stewardship to them from time to time, and provide them with reporting on the results of their engagement and voting activities regularly and at least once a year. The Trustees have limited influence over managers' stewardship practices where assets are in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees have selected two priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities; namely climate change and biodiversity. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our managers each year.

If monitoring identifies areas of concern, the Trustees will engage with the relevant manager to encourage improvements.

SIP signed for and on behalf of the Trustees of the Fund:

Signed: By Edward Levy, Director for The Law Debenture Pension Trust Corporation plc

Appendix 1

Investment governance, responsibilities, decision-making and fees

The Trustees have decided on the following division of responsibilities and decision-making for the Fund. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that the division of responsibility allows for efficient operation and governance of the Fund overall. The Trustees' investment powers are set out within the Fund's governing documentation.

1. Trustees

Broadly, the Trustees are responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for asset class rebalancing;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, investment advisers, the actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Investment managers

Broadly, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;

- providing the investment platform provider with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios. The custodians are appointed by the investment managers. There is therefore no direct relationship between the custodian and the Trustees.

3. Annuity Provider

The annuity provider's responsibility is to pay the pensions secured under the bulk annuity contract accurately and on a timely basis.

4. Investment adviser

Broadly, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustees, for:

- advising on how material changes within the Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers; and
- participating with the Trustees in reviews of this SIP.

5. Fee structures

The Trustees recognise that the provision of investment management and advisory services to the Fund results in a range of charges to be met, directly or indirectly, by deduction from the Fund's assets.

The Trustees have agreed Terms of Business with the Fund's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustees to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' current view as to the most appropriate arrangements for the Fund.

6. Performance assessment

The Trustees are satisfied, taking into account the external expertise available, that there are sufficient resources to support their investment responsibilities. The Trustees believe that they have sufficient expertise and appropriate training to carry out their role effectively.

It is the Trustees' policy to assess the performance of the Fund's investments, investment providers and professional advisers from time to time. The Trustees will also periodically assess the effectiveness of their decision-making and investment governance processes and will decide how this may then be reported to members.

7. Working with the Fund's employer

When reviewing matters regarding the Fund's investment arrangements, such as the SIP, the Trustees seek to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustees need to reach agreement with the employer, the Trustees believe that better outcomes will generally be achieved if the Trustees and employer work collaboratively.

Policy towards risk

Appendix 2

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Fund to meet their investment objectives. Taking more risk is expected to mean that those objectives could be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long term objectives before attainment of those objectives is seriously impaired. The Trustees aim to strike a balance between risk appetite and risk capacity.

When assessing the above, the Trustees considered the following:

- the strength of the employer's covenant and how this may change;
- the agreed journey plan and employer contributions;
- the Fund's long-term and shorter-term funding targets;
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Fund's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustees consider that there are a number of different types of investment risk that are important to manage and monitor. These include:

2.1. Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Fund should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Fund to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Fund's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustees on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the

Fund's assets. The Trustees believe that the Fund's assets are adequately diversified between different asset classes and within each asset class.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Liquidity/marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due, or that the Fund will become a forced seller of assets to meet benefit payments. This risk has been mitigated by the purchase of the bulk annuity contract with Aviva. Aviva is required to pay the Fund an amount equal to the payments due to members.

2.5. Climate related risk

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). The Trustees seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

2.6. Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Fund's investments, some of which could be financially material, over both the short and longer term. These include risks relating to factors such as unsustainable or socially harmful business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately and from time to time the Trustees review how these risks are being managed in practice.

2.7. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is subject to credit risk through its annuity policy with Aviva. The Trustees are confident that Aviva has sufficient financial security to have a very high likelihood of remaining solvent and delivering the promised benefits through the lifetimes of the Fund's beneficiaries insured under the policy.

2.8. Currency risk

The Fund is not subject to currency risk as none of the Fund's investments are held directly in overseas markets.

2.9. Interest rate and inflation risk

The annuity policy with Aviva matches the pensions payable to all the Fund's deferred and current pensioner members. The interest rate and inflation exposure of this policy hedges the corresponding risks associated with the Fund's liabilities.

2.10. Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Fund, and takes these into consideration as far as practical in setting the Fund's investment arrangements as part of their assessment of the other aspects of the Fund's Integrated Risk Management framework.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, the sponsoring employer is unable to support the Fund as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Fund's funding position falls below what is considered an appropriate level. The Trustees regularly review progress towards the Fund's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

The Trustees have minimised these risks in respect of all of the Fund's deferred and pensioner members by purchasing a bulk annuity contract with Aviva.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Investment manager arrangements

Appendix 3

Details of the investment managers, their objectives and investment guidelines are set out below.

1. Buy-in provider – Aviva Life & Pensions UK Limited ("Aviva")

The Trustees have selected Aviva as the provider for the bulk annuity policy. The bulk annuity policy covers the pensions payable to all the Fund's deferred and current pensioner members. The objective of the policy is to match the Fund's benefit payments relating to those pensions covered by the policy.

2. Legal & General Investment Management ("LGIM") – Sterling Liquidity Fund ("SLF")

The Trustees have selected LGIM as the investment manager for the Fund's residual holdings and invest in the SLF. The objective of this fund is to offer access to liquidity whilst providing capital stability. It aims to provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average).

The fund is daily priced, open ended and is not listed on any stock exchange. The fund has an annual management charge of 0.125% pa with an additional policy charge of £1,500 per annum, payable quarterly in arrears.

3. The home reversion portfolio

The Trustees have selected Home & Capital as the investment manager for the Fund's home reversion portfolio. The Fund's home reversion portfolio is small and illiquid, and is currently in run-off.

4. Additional Voluntary Contributions ("AVCs")

The Trustees have full discretion as to the appropriate vehicles made available for members' AVCs. The Trustees have selected Santander UK and the Scottish Life Assurance Company as the Fund's AVC providers.

Only investment vehicles that are considered suitable for investment of AVCs are considered by the Trustees, having taken appropriate advice. The Trustees' policy is to review the investment vehicles over which they retain control and to obtain written advice about them from time to time. Nevertheless, members are expected to take independent financial advice when choosing a vehicle for the AVCs.