AWE Pension Trustees Limited
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AWE Pension Scheme (the "Scheme")

Statement of Investment Principles (the "Statement")

Issue date –September 2020

1. Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 25 September 2020. The Trustee will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

2. Consultations Made

The Trustee has consulted with the Principal Employer, AWE plc, prior to writing this Statement and has considered their recommendations and will take the employer's comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the AWE Pension Scheme. The Trustee has obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Solutions UK Ltd who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. A copy of this Statement has been provided to the investment managers appointed and is also available to the members of the Scheme.

3. Objectives and Policy for Securing Objectives

The Trustee's primary objectives are:

- "funding objective" - to ensure that the Scheme is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;

- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy;
- "security objective" – to ensure that the solvency position of the Scheme is expected to improve. The Trustee will take into account the strength of the employer's covenant when determining the expected improvement in the solvency position of the Scheme; and

"risk objective" – to have due regard to investment risk and update the investment strategy over time to reduce investment risk as the Scheme's funding position improves. The long term aim is to reduce the level of investment risk in the portfolio so that the strategy only targets a modest level of additional return when compared with the long term funding assumptions. The Trustee does, however, recognise that these objectives may conflict. For example, a greater allocation to more defensive assets may give greater security but may result in a level of contributions which the employer may find too financially demanding to support. The Trustee also recognises that, in resolving this conflict, it may be necessary to accept some risk and will articulate these risks within a risk register, which will be actively managed.

4. Choosing Investments

The types of investments held and the balance between them is deemed appropriate by the Trustee given the liability profile of the Scheme, its cashflow requirements, the funding level and the Trustee's objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustee acts to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme's liabilities are invested in a manner appropriate to the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets and which offer the potential for enhanced returns being kept to a prudent level) and are diversified.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed so as to avoid excessive risk exposure to a single counterparty.

5. The Balance Between Different Kinds of Investments

The Trustee recognises that the key source of financial risk (in relation to meeting its objectives) arises from asset allocation. It therefore retains responsibility for setting asset allocation and takes expert advice as required from its professional advisers.

The Trustee believes the most appropriate means of determining asset allocation is by asset and liability modelling, which is normally carried out following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way).

A broad range of available asset classes has been considered. The Trustee has exposure to so called "alternative" asset classes through investment in property, infrastructure and absolute return funds, as well as exposure to more traditional asset classes such as equities and bonds.

6. Investment Risk Measurement and Management

The Trustee's assessment of risk is forward looking and uses asset and liability modelling techniques. A check is made as to whether the funding and investment strategy remains on target to achieve the original objectives and within acceptable parameters. If not then corrective action is considered, either by adjusting investment policy or through amendments to the contribution plan. A risk register is maintained by the Trustee to articulate these risks and ensure proper management.

The Trustee seeks to manage market-risk through investment in alternative asset classes and by adopting a diversified investment strategy. Financial instruments are used to hedge a proportion of the inflation and interest rate risk inherent in the Scheme's cash flows.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy). The Trustee also has an agreement with the employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employer. In particular, the Trustee will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification, the Trustee will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustee monitors the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by its professional advisors. The Trustee has appointed Aon to alert it on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

For due diligence purposes the Scheme operates an Asset Liability Committee, which meets at least four times a year. Sub-groups of the Asset Liability Committee aim to meet with each investment manager on an annual basis and more frequently if required.

7. Custody

Investment in pooled funds gives the Trustee a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of each fund's assets. For segregated assets the Trustee has appointed a custodian, who is responsible for the day to day control of the custody arrangements. The Trustee receives a copy of the investment managers', custodian's and auditor's reports on their respective procedures on an annual basis.

8. Arrangements with investment managers

The Trustee monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies (including the Trustee's policy on Responsible Investment).

Where the Scheme invests in funds that are regularly reviewed by the investment consultant, the Trustee uses conclusions drawn from these assessments on a quarterly basis (and more frequently if required) to determine whether the funds and investment managers remain suitable.

Where the Scheme invests in funds that are not regularly reviewed by the Trustee's investment consultant, the Trustee reviews performance on a quarterly basis and conducts a review of the strategy, with the support of the investment consultant, on an annual basis.

The above monitoring includes 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 receives quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance and long-term positioning of the portfolio. The Trustee focuses on long-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objectives and assesses the investment managers over the long-term.

In line with the required actions from the Pensions Regulator, on an annual basis the Trustee will produce an Engagement Policy Implementation Statement ("EPIS") which will also be included in the annual reports and accounts.

Before appointment of a new investment manager, the Trustee carries out a due diligence exercise including a review of the relevant documentation by the Trustee's lawyers, reviews the governing documentation associated with the investment manager and will consider the extent to which this aligns with the Trustee's policies. Where possible, 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, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the investment manager.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers (where possible), and regular monitoring of investment managers' performance and investment strategy, is sufficient to incentivise the 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 for all investment managers will be reviewed if material causes for concern are identified. Where the Scheme holds closed ended vehicles, the duration is usually defined by the nature of the underlying investments.

9. Cost and Performance:

Understanding costs:

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 managers that can increase the overall cost incurred by the investments.

The Trustee requests annual cost transparency reports covering all of their investments and asks that the managers provide this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class where possible. This allows the Trustee to understand what they are paying their managers. The Trustee works with the investment consultant and investment managers to understand these costs in more detail where required.

The Trustee believes that net of all costs performance assessments provide an incentive on investment managers to manage these costs. However, it also understands that regular monitoring of these costs will improve the incentives on investment managers to control any inefficiencies.

Cost Transparency

The Trustee expects all investment managers to provide full cost transparency in line with industry standard templates. Prior to their appointment, the Trustee expects investment managers to confirm their adherence to providing this information.

The Trustee assesses the performance of the investment managers on a quarterly basis and the remuneration of the investment managers on an annual basis. On an annual basis, all of the investment managers are asked to provide details of the costs incurred in managing the Scheme's assets, using industry standard disclosure templates. These costs include portfolio turnover costs (transaction costs). Where the disclosed costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with their investment strategy.

Portfolio Turnover

The Trustee accepts 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 high 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 Trustee's 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 manager's fund holdings change over a year. The Trustee'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. Expected Returns on Assets

Over the long-term the Trustee's expectations are:

- for the "growth" assets (UK and overseas equities and alternative asset classes) to achieve a return which at least keeps pace with the increase in average weekly earnings (retail price inflation plus 1.5% pa) over the same period. The Trustee is willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which maybe regarded as matching the liabilities;

- for the "matching" assets to help manage the Scheme's exposure to interest rate and inflation risks.

The expected nominal return assumptions for the main asset classes for the next 10 years, based on Aon's 'Capital Market Assumptions' dated 31 March 2020, are as follows:

UK inflation – CPI 2.1 % pa / RPI 2.8% pa
UK equities – 7.2 % pa
Overseas equities – 6.3% pa (US)
UK property – 5.4 % pa
15 year UK index-linked gilts – -0.2 % pa
15 year UK fixed income gilts – 0.4 % pa
5 year UK investment grade corporate bonds – 1.5 % pa

Returns achieved by the investment managers are assessed against performance benchmarks set by the Trustee in consultation with its advisers and investment managers.

11. Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised. As a consequence, the Trustee ensures that sufficient assets are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

A proportion of the Scheme's assets is invested in property, infrastructure, bank loans, illiquid credit and absolute return funds. These holdings trade relatively infrequently and liquidity may be extremely limited for these holdings. The Trustee recognises that in certain circumstances payment of redemption proceeds may be delayed and hence may not be realisable at short notice. The Trustee monitors the cashflow requirements of the Scheme on a regular basis.

12. Environmental, Social and Governance considerations

The Trustee's primary concern when setting the investment strategy is to act in the best financial interests of the beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that, in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible steward of the investments.

The Trustee acknowledges that financially material considerations include environmental, social and corporate governance (ESG) factors, such as climate change. Understanding these factors can help identify investment opportunities and financially material risks and the Trustee will fully consider such factors when investing. The Trustee will seek to invest responsibly and avoid investments where ESG factors may reduce the viability of the investment and increase risk.

As part of their delegated responsibilities, the Trustee expects the investment managers to include ESG considerations in the selection, retention and realisation of investments. Such decisions should consider, amongst other things, the sustainability of business models.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee has set up a working group with specific responsibility to work with its advisers to review, suggest and implement updates to the Scheme's approach to ESG.
- The Trustee will undertake periodic training on Responsible Investment to understand how ESG factors, including climate change, may impact on the Scheme's assets and liabilities.
- As part of the ongoing monitoring of investment managers, the Trustee will use ESG ratings provided by their investment adviser, where relevant and available, to assess the investment managers' integration of ESG factors on a quarterly basis.
- The Trustee expects that its investment managers will be signatories to the UN Principles of Responsible Investment ('UNPRI') to contribute to the development of a more sustainable global financial system. Where investment managers are not signatures to the UNPRI the Trustee will look to review the responsible investment policies of these managers and consider whether they comply to a sufficiently high standard.
- On an annual basis, the Trustee will ask the investment managers to provide their policy on how they integrate ESG factors in their investment decision making process. Should the

Trustee look to appoint a new manager, they will request this information as part of the selection process. All responses will be reviewed and monitored.

- The Trustee will include ESG-related risks, including climate change, on the Trustee's risk register as part of ongoing risk assessment and monitoring.

13. Stewardship - voting and engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure high 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 reviews the investment managers compliance with the 2020 UK Stewardship Code.

The Trustee regularly reviews the suitability of the appointed investment managers and takes advice from the investment consultant regarding any changes. Where applicable, 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 Trustee expects, the Trustee undertakes to engage with the investment manager and seek a more sustainable position and may look to replace the manager.

The Trustee reviews the stewardship activities of the investment managers on an annual basis, covering both engagement and voting actions, and will report on this in the EPIS. The Trustee will review the alignment of the investment managers' policies to its own policies on Responsible investment and look for the investment managers, or other third parties, to use their influence as major institutional investors to carry out the Trustee's 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 to promote good corporate governance, accountability, and positive change.

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

Where possible, transparency for voting should include voting actions and rationale with relevance to the Scheme, highlighting in particular those votes by the investment managers against management that were significant and where votes were abstained. Where voting is concerned the Trustee expects the underlying asset managers to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure and management of actual or potential conflicts of interest. When a concern is identified, the Trustee will engage with the investment consultant to consider the methods by which, and the circumstances under which, it will monitor and engage with the investment managers and other stakeholders.

14. Members' views and non-financial factors

The Trustee does not explicitly take the views of individual members and beneficiaries of the Scheme into account in relation to ethical considerations, social and environmental impacts, or present and future quality of life matters (defined as 'non-financial factors' in the 2018 Regulations). The Trustee will review this policy on at least a triennial basis.

15. Initiatives and Industry Collaboration

The Trustee expects its investment adviser to be involved with, or signatory to, relevant international and UK-wide Responsible Investment initiatives.

16. Disclosure and Reporting

In line with the commitment to transparency, the Trustee will report to the members of the Scheme with regards to its activities on ESG integration on an annual basis.

17. Additional Voluntary Contributions ("AVCs") Arrangements

Some members are entitled to further benefits having paid AVCs to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Signed by

Michael Chatterton and Nita Tinn 25 September 2020

On behalf of AWE Pension Trustees Limited