

BT Section of the BT Hybrid Scheme ("the Section")

Statement of Investment Principles

as Required by the Pensions Act 1995 and the Pension Act 2004

September 2021

The Trustee confirms that the following matters have been taken into account when preparing this Statement of Investment Principles:

The Trustee has considered written advice from the Investment Consultant, Deloitte Total Reward and Benefits Limited, prior to the preparation of this Statement and has consulted BT PLC, the Section Principal Employer, before agreeing this Statement and the investment strategy outlined in this document.

All day to day investment management decisions have been delegated to the Investment Manager where the Investment Manager is authorised and regulated by the Financial Conduct Authority.

The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify, the custodianship of assets and any self-investment.

The Trustee will meet with representatives of the Investment Manager as required.

This Statement of Investment Principles will be reviewed at least every three years, or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken having taken advice, as appropriate, and following consultation with the Section Principal Employer.

General

This statement sets out the principles governing decisions about the investment of the assets of the BT Section of the BT Hybrid Scheme (the “Section”). It has been prepared on behalf of the Section Trustee (the “Trustee”) to comply with section 35 of the Pensions Act 1995 (the “Act”) as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee reviews the Section’s investment strategy at least every three years, following each formal actuarial valuation of the Section (or more frequently should the circumstances of the Section change in a material way).

The legal owners of the Section’s assets will be the Scheme Trustee, Master Plan Trustees Limited.

Section 1 of this Statement of Investment Principles considers the Section’s Defined Benefit assets. Section 2 considers the Section’s defined contribution arrangements.

Section 1 – Defined Benefit assets

1.1 Consulted Parties

As required under the Act, the Trustee has consulted a suitably qualified person in obtaining written advice from Deloitte Total Reward and Benefits Limited (“DTRB” or the “Investment Advisor”) on the suitability of the investments, the need for diversification and the principles contained in this Statement. DTRB is authorised and regulated by the Financial Conduct Authority (“FCA”).

The Trustee, in preparing this Statement, has also consulted BT PLC, the Section Principal Employer (the “Company”), in particular on the Trustee’s objectives and investment strategy.

1.2 Investment Powers

The Trustee recognises that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries. The Trustee has overall responsibility for the prudent management of the Section’s assets. The strategic management of the Section’s assets is fundamentally the responsibility of the Trustee, acting on advice from DTRB, and is driven by the investment objectives as set out in Point 1.3 below.

The remaining elements of policy, which are part of the day-to-day management of the assets, are delegated to the professional investment managers, Legal & General Assurance (Pensions Management) Limited where the management of the assets is undertaken by Legal & General Investment Management (“LGIM”) and Partners Group, collectively the Investment Managers, who are authorised and regulated by the FCA.

1.3 Investment Objectives

The Trustee’s primary objectives for setting the Section’s investment strategy are set out below:

- “growth objective” – to be invested in assets which are expected to achieve a return consistent with the discount rate used to value the Section’s Technical Provisions liabilities;
- “stability objective” – to have due regard to the Company’s ability in meeting its contribution payments given its size and incidence, and to have due regard to the volatility of measures of funding and security; and

- “hedging objective” – for the assets to hedge a portion of the interest rate and inflation risk associated with the Section’s liabilities on a Technical Provisions basis.

The investment arrangements outlined in Point 1.6 have been designed with these considerations in mind.

1.4 Choosing investments

The Trustee recognises that there are two main factors driving the investment characteristics of the pension liabilities:

- Firstly, the Section’s Technical Provisions basis will use a discount rate linked to bond rates and thus investments in similar bonds would result in asset values moving in a similar pattern - "matching assets"; and
- Secondly, the Section’s Technical Provisions liabilities include those increased annually for inflation. Thus these individual liabilities have a direct link to inflation i.e. they are "real" liabilities as opposed to "nominal" liabilities.

Therefore it is considered that the best "matching assets" for the liabilities are a mixture of nominal and index-linked bonds of appropriate durations. Such a portfolio of assets could be considered a “minimum risk” Liability Driven Investment (“LDI”) portfolio. In addition to the use of physical bonds, the Section could use interest rate, inflation and total return swaps along with gilt/index-linked gilt repurchase agreements (“repo”) to gain leveraged exposure to interest rates and inflation.

The Trustee feels that is appropriate to deviate from a “minimum risk” position and invest some of the Section’s assets in equities, corporate bonds and other private markets assets in an effort to improve the ongoing technical provisions and solvency funding positions and to reduce the reliance on the Company’s contributions to fund liabilities. However, both the Trustee and the Company recognise that holding such assets will bring increased volatility of sponsor contribution requirements in anticipation of reduced costs in the long term. The Trustee works with the Scheme Actuary and the Investment Advisor to decide what degree of risky assets are appropriate at each given point in time.

Finally, when choosing investments the Trustee has considered risks, including Environmental, Social and Governance factors, which they believe to be financially material to the Section’s investments over the period needed to fund its liabilities.

1.5 Investment Managers

The Trustee, with guidance from their Investment Advisor, has chosen LGIM and Partners Group to be the Section’s Investment Managers and both of them are authorised and regulated by the Financial Conduct Authority.

The fee arrangements agreed with the Investment Managers are summarised in Point 1.13 of this document. These fees are based on assets under management and are not subject to any performance conditions. The Trustee reviews the fees charged by the Investment Managers on a regular basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Section’s size and complexity.

The Trustee also reviews additional investment manager costs and charges (including portfolio turnover costs) on a regular basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustee monitors the portfolio turnover in the context of

Statement of Investment Principles – BT Section of the BT Hybrid Scheme

what the Trustee believes to be reasonable given the nature of each mandate. By also monitoring performance and associated costs, the Investment Managers are incentivised to consider the impact of portfolio turnover on investment performance.

The Trustee believes that along with the Investment Manager’s stewardship policies, which are detailed in Point 1.10 of this document, the objectives of the funds are aligned with the medium and long term views of the Trustee.

The remuneration of the Investment Managers is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustee will review and replace the Investment Managers if net of fees investment performance and ESG practices are not in line with the Trustee’s expectations and views.

The Trustee, with guidance from their Investment Advisor, has chosen to invest in open-ended pooled funds. For these funds, the Trustee’s policy is to enter arrangements with no fixed end date. However, the Trustee will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Section’s open ended investments are daily and weekly dealt. The Trustee will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of the Investment Managers’ performance against objectives. The Trustee may also elect to terminate the arrangements with the Investment Managers when performing ongoing reviews of the suitability of the Section’s asset allocation over time.

1.6 Strategic Investment Benchmark

The Trustee has put in place the following investment strategy for the Section.

Asset Class	Fund	Strategic Allocation (%)
Global Equities	LGIM Future World Global Equity Index Fund – GBP Hedged	40
Liability Driven Investments (LDI) and collateral	LGIM Matching Core Fixed and Real Funds	25
Buy and Maintain Credit	LGIM Buy and Maintain Credit Fund	20
Private Markets	Partners Group Generations Fund	15
Total		100

All investments to be held are to be managed by FCA authorised and regulated investment managers.

The objective of the LDI allocation is to hedge 100% of the interest rate risk and inflation risk associated with the Section’s liabilities. To achieve this, the assets invested in these LDI funds may vary from the benchmark allocation over time.

Global equities and the Partners Group Generations Fund are included in the strategic asset allocation to provide an expected return above that of gilts. The allocation to Buy and Maintain Credit is designed to provide growth assets which also provide some interest rate hedging of the Section’s liabilities. Due

to the nature of the Buy and Maintain portfolio, it is also designed to reduce the volatility of the Section’s funding level.

1.7 Performance Benchmark of Investments

The Trustee expects that the returns for the LGIM funds will be similar to (within tolerance levels) the appropriate market index. The benchmark for each of the Funds being used is detailed below:

Asset Class	Benchmark Index
LGIM Future World Global Equity Index Fund – GBP Hedged	Solactive L&G ESG Global Markets Index – GBP Hedged
LGIM Matching Core Fixed and Real Funds	Custom Benchmark
LGIM Buy and Maintain Credit Fund	None provided by LGIM, so iBoxx All Stock Sterling Non-Gilt Index used as a comparator
Partners Group Generations Fund	No benchmark – the net target return of the fund is 7-11% p.a. over a full market cycle (5 years)

1.8 Realising investments and rebalancing

In general, the Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

All of the funds are weekly dealt, with the exception of the Partners Group Generations Fund, meaning that investors can subscribe or redeem their investment on any weekly dealing day. The Partners Group Generations Fund is daily dealt, meaning that investors can subscribe or redeem their investment on any business day.

However, the Partners Group Generations Fund has gating provisions in place, limiting withdrawals over given periods. The present limits which apply to total redemptions from the Partners Group Generations Fund are:

- The total number of shares to be redeemed on that Dealing Day would result in more than 10% of the Generations Fund’s NAV being redeemed in a single day;
- The total number of shares to be redeemed on that Dealing Day would result in more than 25% of the Generations Fund’s NAV being redeemed within the prior 30 day period; and
- The total number of shares to be redeemed on that Dealing Day would result in more than 40% of the Generations Fund’s NAV being redeemed within the prior 12 month period.

Should total redemption requests exceed these limits, redemptions will be applied on a ‘first come, first serve’ basis. Where these limits have been met, the request will be carried forward to the next dealing day and dealt in priority to all other later redemption requests.

The aim of the Generations Fund’s liquidity management policy is two-fold:

- to ensure that there is sufficient liquidity to meet the Generations Fund’s liquidity needs and satisfy withdrawal requests, up to the Generations Fund’s limit of 40% of NAV per 12 month period; and
- to maintain the target level of investment in private markets, normally a challenge for investors in traditional closed-ended private market fund investments.

The Trustee will consider requesting specific advice from the Investment Advisor before undertaking any rebalancing.

1.9 Risks

In determining its investment policy, the Trustee has considered the following risks:

- *the risk of failing to meet the objectives set out in Point 1.3* – the Trustee will regularly take advice and monitor the investments to mitigate this risk;
- *funding and asset and liability mismatch risk* – the Trustee addresses this through the asset allocation strategy and through regular actuarial and investment reviews;
- *underperformance risk* – this is mitigated to some extent through investment in mostly passive funds, monitoring the performance of the Investment Manager and taking necessary action when this is not satisfactory;
- *risk of inadequate diversification or inappropriate investment* – the Trustee addresses this by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock, sector or asset class;
- *organisational risk* – this is addressed through regular monitoring of the Investment Managers;
- *sponsor risk* – the Trustee seeks to maximise overall investment returns subject to an acceptable level of risk and, as far as possible, are mindful of the impact of any volatility on the rate of contribution;
- *liquidity risk* – the Trustee may need to pay pension and lump sum benefits in the short-term and, therefore, address this risk by investing an appropriate amount in assets that are realisable at relatively short notice. In practice, all of the funds invested in by the Section provide at least weekly liquidity;
- *currency risk* – there is a risk of investing in non-sterling denominated assets through the global equity fund and the Generations Fund. This risk is mitigated through investing in a sterling hedged version of the global equity fund and Partners Group may hedge non-sterling currency exposure;
- *credit and market risks* – the Trustee accepts a degree of each of these risks in the expectation of being rewarded by excess returns;
- *environmental, social and governance (ESG) factors* – the Trustee acknowledges that ESG factors can have a financially material impact on the future returns on its investments and the Trustee’s actions to mitigate these is detailed in the following section; and
- *non-financial risks* – the Trustee has not taken these into account when deciding the choice of the Section’s investments.

The Trustee will monitor these risks from time to time, particularly those deemed to have high likelihood or significant adverse impact and will look to introduce further control measures as appropriate to contain the overall level and distribution of risks to within acceptable limits.

1.10 Environmental, social and governance (ESG) policies and voting rights

The Investment Managers are responsible for managing the Section's investments in accordance with the management agreements in place with the Trustee. The Trustee has delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Managers.

The Trustee is responsible for setting the Section's investment strategy and implementing that strategy through appointing investment managers and selecting investment funds. When setting investment strategy and selecting investments, the Trustee's first priority is the financial interests of their members. The Trustee regularly reviews the return objectives, risk characteristics, investment approach and investment guidelines of the Section's current investment mandates. The Trustee is satisfied that the existing mandate fulfils the needs of their target investment strategy and by extension, that the Section's Investment Managers are managing the Section's assets in a manner which is consistent with members' financial interests.

The Trustee acknowledges that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Section's investments and the likelihood that the Section's objectives will be achieved.

The Trustee recognises the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustee has set an appropriate monitoring framework to ensure the Section's Investment Managers are regularly reviewed. This is to promote greater transparency in understanding the reasons behind performance trends and key risk exposures, and also engagement activity and compliance with the Trustee's stated ESG policy. Regular monitoring, with specific reference to ESG factors should incentivise the Section's Investment Managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial. To confirm, no consideration has been given to non-financial considerations, nor has the Section's membership been consulted on such issues.

The Trustee also recognises the importance of regular monitoring of the Investment Managers' performance, remuneration and compliance against its ESG policy to ensure that the Section's assets are being managed appropriately. The Trustee believes that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are quickly identified and concerns communicated with the relevant investment manager.

In addition to performance measures, the Trustee will review the engagement activity of the Investment Managers to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustee also monitors the voting activity of the Investment Managers to ensure votes are being used and are aligned to their views on ESG.

As part of the selection, retention and realisation of the Section's investments, the Trustee, in consultation with the Investment Advisor, has reviewed the ESG and stewardship policies of the Investment Managers and are comfortable that these policies are consistent with their views. In particular, the Trustee notes the following:

- The Investment Managers have clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues.
- The Section's investments are predominantly passively managed where LGIM is restricted in the choice of underlying assets to invest in. As such, stewardship is of primary importance in ensuring that financially material ESG factors are given appropriate consideration.

- The Trustee’s policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Section’s interests in the investments, having regard to appropriate advice. The Trustee expects the Investment Managers to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee’s investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.
- LGIM regularly publishes detailed results of how its stewardship policies are enacted in practice and the Trustee expects LGIM to provide regular updates on how they exercise those rights, including how often they vote against company proposals. The Trustee will review this on a regular basis in line with its monitoring policy mentioned above.
- The nature of the Section’s pooled LDI funds dictate that the ESG factors are less likely to be financially material. The Trustee does however have confidence that the management team has adequate governance practices in place to capture key regulatory developments which might influence the future management/ performance of these assets.
- The Trustee is satisfied that Partners Group considers financially material ESG factors and their potential impact on risk and return when making investment decisions for the fund in which the Scheme invests. The Trustee notes that Partners Group has a specialist ESG team dedicated to continuing to improve the level of integration of ESG factors into portfolios going forward. Partners Group has been given an A+ rating from the UN Principles for Responsible Investment and regularly publishes reports details of ESG engagements and voting.

The Trustee will keep its investments under review, and should it feel that either of the Investment Managers no longer acts in accordance with its views on ESG, the Trustee will take the following steps:

- Engage with the Investment Managers in the first instance, in an attempt to influence their policies on ESG and stewardship; and
- If necessary, look to appoint a replacement investment manager or managers that are more closely aligned with the Trustee’s policies and views.

The Trustee believes that these steps will incentivise the Investment Managers to align their actions with the Trustee’s policies and also for it to act responsibly.

These statements are made noting that the Section’s assets are invested in pooled funds and as such, the Trustee is restricted in their ability to directly influence its Investment Manager on the ESG policies and practices of the companies in which the pooled funds invest.

1.11 Governance

The Section Trustee is responsible for the investment of the Section’s assets. The Trustee takes some decisions and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether the Trustee has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

Trustee

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| <ul style="list-style-type: none">• Select and monitor planned asset allocation strategy;• Select and monitor investment advisers and investment managers; |
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<ul style="list-style-type: none">• Select and monitor any direct investments;• Responsible for all aspects of the investments of the Section’s assets, including ESG considerations and implementation.
Investment Adviser <ul style="list-style-type: none">• Advises on this statement;• Advises the Trustee on areas of strategy, manager selection, ESG and implementation as required;• Provides required training when engaged on a separate basis by the Trustee.
Investment Managers <ul style="list-style-type: none">• Operates within the terms of this statement and their written contracts;• Manages in accordance with their written contracts, including decisions around the selection and retention of individual investments.• Is responsible for the stewardship of underlying investments.

The Trustee’s policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the Investment Managers.

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. DTRB was appointed to provide investment advisory services including the provision of this advice.

The Trustee recognises that, as the Section is invested in a range of pooled funds, there is limited scope to influence the controls and restrictions used in the management of the underlying assets and acknowledge that derivatives may be used by the manager within the funds.

The Trustee has delegated all day-to-day decisions about the investments that fall within the mandate to the Investment Managers through written contracts. These duties include:

- Realisation of investments;
- Taking into account ESG factors; and
- Voting and corporate governance in relation to the Section’s assets.

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

The Investment Managers are remunerated on a percentage value of assets basis. In addition, the Investment Managers pay commissions to third parties on many trades they undertake in the management of the assets.

1.12 Custodian

The custodianship arrangements are those operated by the Investment Managers for all clients investing in the relevant pooled funds. The Investment Managers are expected to provide a statement of the security of the underlying assets annually.

1.13 Fees

LGIM and Partners Group levy the following annual management charges, based on assets under management. The LGIM funds benefit from the discount obtained as part of Deloitte's relationship with LGIM.

Fund	Fee (p.a.)
LGIM Future World Global Equity Index Fund – GBP Hedged	0.18%
LGIM Matching Core Fund range	0.18%
LGIM Buy and Maintain Credit Fund	0.14%
Partners Group Generations Fund (via the LGIM platform)	1.89%

Section 2 – Defined Contribution assets

2.1 Objectives

The Trustee's main investment objectives are:

- to provide a suitable default investment option that is likely to be suitable for contributing and deferred members within the Section who do not make an active investment choice
- to offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives
- to achieve positive member outcomes net of fees and subject to acceptable levels of risk
- manage the expected volatility of the returns through appropriate diversification of the use of asset types in order to control the level of volatility and risk in the value of members' pension pots

The Trustee is responsible for the design of the default investment option and for choosing which funds to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

2.2 Investment Options

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings.

However, the Trustee believes that the lifestyle arrangement set out below represents an appropriate default investment option for members who do not make a choice about how their contributions (and those made on their behalf by their employer) are invested, taking into account:

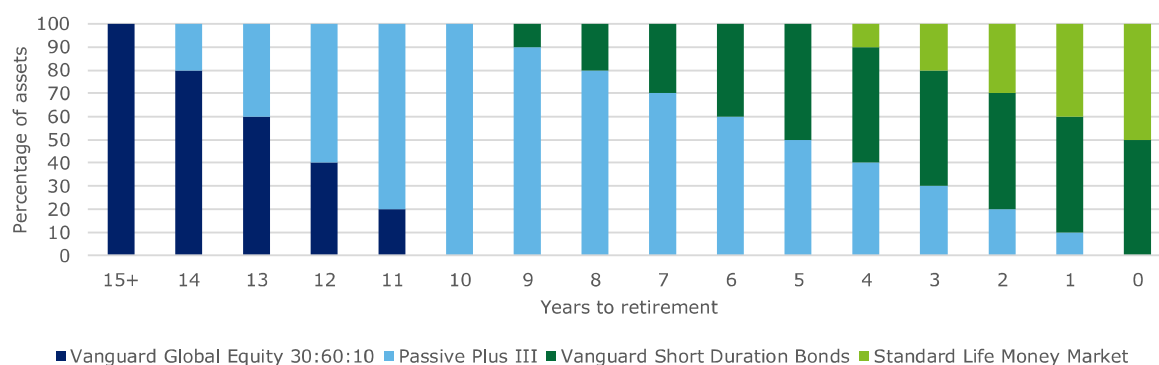
- The kinds of investments to be held
- Investment risks
- The expected return on investments, net of fees
- The realisation of investments
- Socially Responsible Investment, Corporate Governance and Voting Rights

The Trustee will invest the DC assets through Standard Life insured funds.

The Section's default option investment strategy invests entirely in global equities on passive basis until the member is around 15 years from retirement. Investment risk is gradually reduced through increasing allocations to lower risk assets such as bonds and cash. At retirement, a member's pot will be invested in a combination of cash and short duration bonds – on the basis that members will want to take their benefits as cash upon retirement. This will be reviewed once the membership profile of the Section is more clearly defined. We also note that Section members will have a defined benefit so may be more likely to take their DC benefits as cash at retirement.

Statement of Investment Principles – BT Section of the BT Hybrid Scheme

The switching matrix for the Section’s default option is shown in the table below:



Self-select Funds

The Trustee decided to offer 15 self-select funds to members, incorporating a range of asset classes including regional and global equities, fixed and index-linked government bonds and corporate bonds. An ethical equity fund and a Shariah Fund are also included to allow members to invest in line with their ethical/religious beliefs.

White labelled name	Underlying Fund
Cash Fund	SL Money Market Fund
UK Government Fixed Interest Bond Fund	SL iShares UK Gilts All Stocks Index Pension Fund
UK Government Inflation-linked Bond Fund	SL Vanguard UK Inflation Linked Gilt Index Pension Fund
Short Duration Bond Fund	SL Vanguard Short Duration Bond Pension Fund
UK Corporate Bond Fund	SL iShares Corporate Bond Index Pension Fund
Pension Match Fund	Standard Life Annuity Purchase Fund
Active Global Absolute Return Bond Fund	Standard Life SLI Absolute Return Global Bond Strategies Pension Fund
UK Equity Fund	SL iShares UK Equity Index Pension Fund
Global (excluding UK) Equity Fund	SL Vanguard FTSE Developed World ex UK Pension Fund
Emerging Markets Equity Fund	SL iShares Emerging Markets Equity Index Pension Fund
Active Global Equity Fund	Baillie Gifford UK and Worldwide Equity Fund
Passive Diversified Fund	Standard Life Passive Plus III
Global Equity Index Fund	Standard Life 30:60:10 Global and Emerging Markets Equity Tracker (Vanguard) Pension Fund
Global Ethical Equity Fund	SL Vanguard SRI Global Stock Pension Fund
Shariah Equity Fund	SL HSBC Islamic Global Equity Index Pension Fund

2.3 Risks

The Trustee acknowledges that in a defined contribution context, risk lies with the members themselves rather than the Section. The Trustee has noted the following risks which affect all members:

- *Inflation risk* – the risk that investments deliver a return below inflation. The Trustee mitigates this risk by offering a range of investment options that are expected to provide a long-term real return.
- *Conversion risk* – the risk that fluctuations in asset values in the period prior to retirement results in uncertainty around the benefit the member will receive. The default investment option uses lifestyleing to gradually reduce the level of investment risk members are exposed to as they approach retirement. A number of lower risk investment options are also available to members on the self-select platform. We also note that members will also have a separate defined benefit, which reduces the level of conversion risk that they are exposed to.
- *Retirement income risk* – there is a risk that the default strategy is inappropriate for a member who wishes to exercise a particular pensions freedom on retirement. The Section will provide the member with clear information regarding the default option, and a range of funds are available on the self-select platform for members to construct a portfolio which may better reflect their risk appetite or retirement choices. We also note that members will also have a separate defined benefit, which will provide a clearly defined retirement income.
- *Concentration risk* – each manager is expected to manage diversified portfolios spread across a range of shares/securities to provide diversification.
- *Currency risk* – some funds may gain exposure to overseas currencies by investing in assets denominated in a foreign currency,
- *Loss of investment* – there is a risk of loss of investment for reasons beyond market movements (such as default risk, operational risk and fraud). The Section will be investing through Standard Life and insured funds. For the Standard Life managed funds, the custodian is Citi, whilst for the other funds, the custodian will be the underlying manager's custodian. Standard Life completes due diligence on each of the underlying managers each year, and their custodian arrangements are covered as part of this.
- *Credit and Market risks* – there is a risk of loss of investment due to changes in market conditions. There is also a risk that the issuer of debt securities may default on their obligations. The effects of such risks are reduced by holding a diversified portfolio of investments.

2.4 Socially Responsible Investment, Corporate Governance and Voting Rights

The Trustee acknowledges the importance of environmental, social and governance issues (ESG) and delegates full discretion to the investment managers to evaluate ESG issues and exercise rights and stewardship obligations. All the funds available to DC members are pooled vehicles which will be governed by the individual investment policies of the underlying policies of the respective investment managers. Members also have the option of investing in an ethical fund and a Shariah fund, to allow members to invest in line with their ethical/religious beliefs.

The Trustee's general approach to ESG issues are set out in Point 1.10 above.

2.5 Monitoring

The Trustee will regularly review the performance of the various funds which are available to Section members. This will take in to account actual short and long term performance in light of the underlying fund's stated investment objective. The Trustee will monitor an investment manager's overall suitability for each mandate on an on-going basis, taking into account investment performance and other prevailing conditions.

2.6 Custodian

Standard Life provide an insurance contract to the Trustee, with the underlying fund manager's custodian being custodian of the Section's assets.

2.7 Fee Arrangements

The Annual Management Charges shown in the table reflect the charges applicable to members of the Section.

White labelled name	Effective annual charge (% p.a.)
Cash Fund	0.26%
UK Government Fixed Interest Bond Fund	0.29%
UK Government Inflation-linked Bond Fund	0.30%
Short Duration Bond Fund	0.29%
UK Corporate Bond Fund	0.29%
Pension Match Fund	0.29%
Active Global Absolute Return Bond Fund	0.78%
UK Equity Fund	0.29%
Global (excluding UK) Equity Fund	0.30%
Emerging Markets Equity Fund	0.47%
Active Global Equity Fund	0.61%
Passive Diversified Fund	0.30%
Global Equity Index Fund	0.31%
Global Ethical Equity Fund	0.30%
Shariah Equity Fund	0.58%