ESB Pensions

ESB Defined Contribution Pension Scheme

Statement of Investment Policy Principles

Issue: March 2024

Prepared for

The Trustees of the ESB DC Pension Scheme “RetireSmart”

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Contents

Statement of Investment Policy Principles

Purpose

The purpose of this Statement of Investment Policy Principles (SIPP) is to document the policies and guidelines that govern the management of the Scheme's assets. It has been reviewed and adopted by the Trustees and outlines their objectives, how they measure risk, their processes for managing risk and their current investment policy.

The Statement takes into account the Pension Authority 2016 DC Code: Investing Scheme Assets[1] and the IAPF Guidelines for Trustees[2].

The Trustees fulfil the requirements of the Occupational Pension Schemes (Investment) Regulation 2006 (as amended) which stipulate that such a Statement is put in place.

It describes:

- The **investment objectives** of the Trustees;
- The **investment policy** which has been adopted to achieve these objectives; and
- The **risk management processes** used to minimize the risk that the objectives are not met.

This Statement will be reviewed at least every three years, and also following any change in investment policy which affects the content of the Statement.

General Principles and Objectives

The ESB Defined Contribution Pension Scheme (the Scheme) is a defined contribution (DC) pension scheme. For the purposes of better communication, the Scheme is rebranded as "RetireSmart".

ESB Energy International Ltd is the Principal Employer. The Trustees are charged with primary responsibility for the management and oversight of the Scheme. The Trustees have taken expert advice from their advisors in setting out their Principles and Objectives.

The investment powers of the Trustees are set out in the Trust Deed & Rules governing the Scheme and this statement is consistent with these powers.

The main aim of the Trustees is to facilitate the investment of the members' contributions during their membership of the Scheme according to the direction given by such members and to facilitate that it should be invested in such a manner that is consistent with the members' investment objectives, if known, to provide for benefits in retirement subject to acceptable levels of risk.

The Trustees recognise that;

- Individual members will have differing investment needs and that these may change during the course of their membership of the Scheme, and
- Individual members have differing attitudes to risk.

[1] http://www.pensionsauthority.ie/en/Trustees_Registered_Administrators/Codes_of_governance_for_DC_schemes/DC_Code_5_-_Investing_scheme_assets.pdf

[2] http://www.iapf.ie/publications/trusteesupport/default.aspx?iid=656

The Trustees overarching objectives are:

- To provide **a range of investment funds** which will enable members to invest in the major asset classes and to protect themselves against the main investment risks that they face (see the risks highlighted in the Risk Management section).
- To ensure that these funds are **well managed** and provide **value for money** for members.
- To ensure that members have **sufficient information** about the funds to be able to make informed choices about how to invest their savings.
- To provide a **default option** for members who do not want to make investment decisions themselves.
- To comply with all **legislative requirements** relating to the investment of retirement savings.

The Trustees have decided on a range of investment funds (see Appendix A). These funds will have the following characteristics:

- Cover the risk/return spectrum (from low risk/low return to high risk/high return), and are distinguishable from one another;
- Managed by experienced, professional investment managers;
- Carry fees which are appropriate for the asset class; and
- The funds can be combined to achieve different risk/return characteristics.

Risk

The Trustees have identified the key investment risks as set out below together with an explanation of how these risks are being managed.

1. INSUFFICIENT GROWTH	2. INAPPROPRIATE DECISIONS
Detail: The risk that the investments will not achieve a return sufficiently above inflation and therefore lose purchasing power	**Detail:** The risk that members choose inappropriate strategies or that the number and type of strategies offered is sub-optimal for the needs of some members.
Risk Mitigation: This risk has been addressed by offering strategies, which aim to outperform over the longer term, such as the Global Equity (with ESG factors), Global Equity and Lifestyle / Multi Asset Strategies.	**Risk Mitigation:** The Trustees have addressed this risk by providing detailed, yet simple and straightforward, descriptions of the strategies utilising 'White Labelling' to help with member understanding. The Trustees provide the full spectrum of strategies in relation to risk/return profiles. The Trustees also use risk-based strategies and personalised lifestyling for members. The lifestyling approach decreases risk as members approach retirement. The Trustees are satisfied that the investment strategies offered are broadly appropriate for the majority of members.

3. FUND VOLATILITY	4. INCOME VOLATILITY
Detail: The risk that performance will be very volatile, giving unease to some investors.	**Detail:** The risk that unfavourable market movements in the years just prior to retirement lead to a substantial reduction in a member's retirement account and hence in the pension secured and the anticipated cash lump sum benefit.
Risk Mitigation: Most investments fluctuate in value and this could result in a reduction in retirement income. This risk is reduced by offering the Annuity Matching and Cash Strategies, which historically have lower levels of volatility relative to other asset classes. The three Lifestyle / Multi Asset Strategies invest across a wide range of asset classes including Diversified Growth Funds and Alternative Risk Premia funds which aims to lower the risk from investing in only equities over time. Currency hedging is also implemented to ensure that there is a general range of at least 40-70%. The currency hedging is assessed regularly.	**Risk Mitigation:** The Trustees offer the Annuity Matching and Cash Strategies to members. In addition, the three Lifestyle Strategies transfers member's accounts gradually into the Cash, Annuity Matching and Lower Risk Multi Asset Strategies as they approach retirement.
5. MANAGER UNDERPERFORMANCE	**6. RISK RATINGS**
Detail: The risk that the chosen investment manager underperforms the benchmark against which the manager is assessed.	**Detail:** The risk that the risk profile of the chosen manager deviates from the intended risk profile.
Risk Mitigation: agreeing performance targets for all the funds and regularly monitoring performance against these targets. Monitoring the risk factors that might lead to future underperformance using research provided by the scheme's investment advisors. Managers whose actual or prospective performance is unsatisfactory may be replaced.	**Risk Mitigation:** This risk has been addressed by regular monitoring and review of the individual manager's risk profile, ensuring it is in line with expectations.
7. ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG)	**8. LIQUIDITY**
Detail: The risk that Environmental, Social and Governance (ESG) factors adversely affect the sustainability of the investment options and/or the risk-adjusted returns available to members.	**Detail:** The risk that investments will not be able to be sold when the member wants.
Risk Mitigation: The Trustees integrate sustainability risks into their investment decision making processes when deciding to allocate to funds managed by professional investment managers and the Trustees delegate the management of Environmental, Social and Governance factors within each fund to professional investment manager(s). The Trustees have also made a Global Equity Strategy (with ESG factors) available for members to choose.	**Risk Mitigation:** Offering strategies that invest in highly liquid funds to members.

Governance

The Trustees of the Scheme are responsible for the investment of the Scheme assets. The Trustees take professional advice and on the basis of this advice, make decisions on the strategy choices (and fund options) to be made available to members and the investment managers to be appointed.

The Trustees have established the following decision-making structure:

Trustees

- Set structures and processes for carrying out their role;
- Select and monitor investment strategies, fund choices, including default fund;
- Select investment advisers and investment managers;
- Decide on the structure for implementing default investment strategy;
- Monitor investment advisers and investment managers;
- Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy;
- Continue to ensure that the Trustees have sufficient training to enable them to make appropriate decisions with the help of the investment advisers;
- Monitor investment managers and investment risk.

Investment Advisers

- Advise on all aspects of the investment of the Scheme assets, as required;
- Advise on this statement;
- Provide required training.

Investment Managers

- Operate within the terms of this statement and their written contracts;
- Select individual investments with regard to their suitability and diversification;
- Advise Trustees on suitability of the indices in their benchmark.

Review of Investment Managers

The Trustees will review each investment manager at least once per year at their regular meetings along with getting regular consultant updates from their investment consultant which will include the following areas:

- Business Issues
- Organisation & Staff
- Investment Process
- Risk Management including ESG
- Systems
- Performance
- Client Service & Fees

The current investment managers, mandates and benchmarks for each manager are listed in Appendix A.

Member Communication

The Trustees are committed to providing members with timely and professional information on an ongoing basis to assist them in making investment decisions. Members will be provided with information regarding all currently available investment options (including historical return, risk level, and fees) and will also receive information through a communications program designed to help them set specific retirement goals and effectively utilise the available investment options to help them meet those goals. The Trustees have in place a review process with members at critical intervention points to ensure they have reviewed their investment choices and are aware of the specific issues relevant to them because of their proximity to retirement.

Members will receive a copy of this Statement upon request.

ESG Considerations

The Trustees believe that environmental factors, social factors and corporate governance behaviour (referred to together as ‘ESG issues’, which for the avoidance of doubt includes sustainability risks) are potentially financially material for the value of the Scheme’s investments. ESG integration may, at times, lead to reduced cost and increased efficiencies, reduced risk of fines, reduced externalities and improved adaptability to sustainability megatrends in the underlying companies in which we invest. The Trustees are of the view that sustainability risks are relevant to, and may materially impact upon, the returns of some of the underlying funds in the Scheme. When selecting and reviewing a manager, the Trustees assess the ESG credentials of the underlying fund and the investment manager along with incorporating the views from their investment consultant on same. This involves looking at the investment manager’s ESG, voting and engagement policies, its SFDR article rating, various ESG statistics where applicable and reviewing examples of the investment manager’s efforts in this regard during their regular presentations.

The Trustees are satisfied that the Scheme’s current funds are managed in accordance with their views on financially material factors, as set out below:

Financially Material Considerations

The Trustees delegate the consideration of all financially material factors in relation to determining the underlying holdings within each of the funds, including ESG factors, to the Scheme’s investment managers as part of their day-to-day management of scheme assets.

Policy Assessment and Monitoring

The Trustees will consider ESG, voting and engagement issues when appointing and reviewing their Scheme provider and/or investment manager (and reviewing the investment strategy) to ensure that they are appropriately considered. The Trustees will also review aspects such as, but not limited to, longer term performance and manager incentivisation in order to ensure alignment with the Scheme’s investment policy.

The Trustees meet regularly with their investment managers and consider how ESG issues are taken into account. Additionally, the Trustees have developed ESG beliefs and policy (see Appendix B) to help guide decision making with respect to ESG issues arising from the Scheme’s investment strategy.

In terms of ESG policies and data, the Trustees assess these through the investment managers’ stated ESG, voting and engagement policies and investment manager reports on same. This data is compiled as part of the Critical Review Assessments, biannual investment manager assessments and onsite/ offsite investment manager meetings.

Implementation

Appendix B contains our ESG Investment Beliefs & Policy. The Trustees' preference is to appoint managers which are highly rated by Mercer's manager researchers from both an investment and ESG perspective, but mainly an investment perspective. If significant under/out performance arises then the Trustees will consider Mercer's manager research views on the prospects of the investment manager (including ESG ratings).

The Trustees have made allocations to ESG screened index funds in the lifestyle/ multi asset strategies.

Additionally the Trustees also offer members a Global Equity Fund (with ESG factors) as a standalone option.

Shareholder Rights Directive (SRD) Policies

Engagement Policy

The Trustees engage an investment manager (Irish Life Investment Managers) through which they invest Scheme assets. A range of funds managed by this investment manager are made available to members for investment. All funds made available to members are pooled/unitised funds managed by this external manager.

The investment manager exercises shareholder voting rights on behalf of investors in accordance with their own voting policies. When the Trustees engage a new manager, part of the procurement and assessment process involves enquiring how they exercise voting rights and stewardship obligations attached to the investments and considering the response in accordance with their own corporate governance policies.

The Scheme's investment manager monitors investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance on behalf of the Trustees. The investment managers reports on at least an annual basis to the Trustees on such matters. Where relevant these matters will be considered by the Trustees' at their quarterly meetings and as part of the Critical Review Assessments. Please see section above titled "ESG Investment Implementation-Stewardship" in the appendix. If a material sustainability risk is alluded to in one of these reports, this could result in the Trustees divesting from or reducing its allocation to a particular investment manager/fund.

Due to the collective nature of the investments undertaken by the Trustees, the Trustees do not enter direct dialogue with investee companies or their relevant stakeholders; exercise voting or other rights attached to shares; or engage with other shareholders. Due to the nature of a pension scheme, shareholder engagement is integrated into the Trustees' investment strategy indirectly through the engagement with investment managers. The Trustees manage any actual or potential conflicts of interest in relation to its engagement responsibilities with its own and the relevant investment manager's conflict of interest policies. Further information on the Trustee's/Scheme's conflict of interest policy is available at [include link to policy].

Annual Update on engagement policy

In line with its engagement policy and this SIPP, the Trustees do not directly exercise any voting rights during the year. The investment manager engaged by the Trustees excises those votes in accordance with their own voting policies through proxy systems (and advisors where applicable) rather than directly on behalf of the Trustees. Such information as is publicly available in relation to how the investment manager casts votes can be found at the investment manager's website. These are available to members upon request.

Investment strategy and arrangements with investment managers

The overall investment objective of the Trustees is to provide members with a range of funds for investment, having regard to the varying nature and duration of members' liabilities and optimise the level of investment return appropriate to the Scheme's long term objective achieved by the Scheme's assets subject to taking an acceptable level of risk, through adopting a prudent, carefully planned and well-executed investment policy. The Trustees seek to pursue this investment objective and effect the main elements of the equity strategy employed in respect of the Scheme by, inter alia, selecting and appointing investment managers to (i) manage the Scheme's assets directly through segregated mandate arrangements or (ii) by allocating the Scheme's assets to collective investment schemes managed by investment managers. The Trustees seek to ensure that any allocation of Scheme assets to investment managers are consistent with the profile and duration of the Scheme's liabilities (in particular, the Scheme's long-term liabilities) and that any allocation contributes to the long term performance of the Scheme's assets. In general, the Trustees expect the appointed investment manager to make investment decisions with the objective of preserving and enhancing long-term shareholder value.

In general, the Trustees' contractual relations with investment managers are open ended (subject to termination provisions which are negotiated as part of the appointment terms) in order to build long term partnership with investment managers. The investment manager's (and/or investment advisor's) report is usually considered by the Trustees on a quarterly basis. Through this assessment and as a result of the terms of the contractual arrangement with the investment manager, the investment manager is incentivised to make investment decisions based on the medium to long-term financial and non-financial performance of their investee companies and engage with them, where appropriate, to improve their performance in the medium to long-term. Any such engagement is subject to the investment manager's own internal corporate governance policies and best practice. The evaluation of the investment manager and in general, the remuneration for investment management services is in line with the long-term nature of pension scheme investments and takes into account the long-term performance of the investment manager.

The Trustees engage separate investment advisers to review the performance of the manager against the benchmark expectations, as part of its regular investment management monitoring and the impact on the overall performance of the assets under management during the reporting period. When selecting a new investment manager or new fund option the Trustees may enquire as to the expected turnover, including portfolio turnover ratio/range and associated turnover costs, for any given fund. Where relevant for particular fund options, as part of the regular manager review process, the Trustees monitor levels of turnover to ensure they remain in line with expectations for that particular mandate. The Trustees define the turnover ratio as the percentage of holdings that have been replaced over the course of one year.

Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) related disclosures

The Trustees do not consider the principal adverse impacts (PAI) of their investment decisions on sustainability factors within the meaning of Article 4 of SFDR. The reasons for this include lack of available/reliable data and/or an inability to ensure that all underlying investment managers will report on PAIs. If and/or when such data/reporting becomes available, the Trustees will then likely consider PAIs.

Where available and required, investment managers may publish information on how they consider the PAI of investment decision on sustainability factors. To the extent that information is publicly available, such information as to how the investment manager considers sustainability risks when making investment decisions is available on their website and/or in the offering documentation of the relevant underlying fund.

Under SFDR, the Trustees are viewed as financial market participants, whilst the Scheme is considered to be the financial product offered by the Trustees. Products under SFDR can disclose under Article 9 (for those products that have sustainable investment as their investment objective), under Article 8 (for those products that promote social and/or environmental characteristics) or solely under Article 6 (for those products that do not disclose under Article 8 or Article 9). The Trustees have determined that the Scheme should disclose solely under Article 6 of SFDR, and so the Trustees are therefore required to disclose that the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

A review of remuneration policies (for example the long-term nature of them and how they incentive key investment management personnel) is included in the appointed investment adviser's independent research and review of appointed investment managers.

Under Article 5 of the Sustainable Finance Disclosure Regulation (EU 2019/2088) ("SFDR"), the Trustees (as a financial market participant) are required to include in the Remuneration Policy information on how this Policy is consistent with the integration of sustainability risks. To the extent that they are subject to the SFDR, the Scheme's investment managers are subject to their own remuneration policies and procedures which are consistent with the integration of sustainability risks into their investment decision-making processes. As no other person involved in the management of the Scheme, including the Trustees or any Key Function Holder, is remunerated from the assets of the Scheme, nor is such remuneration connected to or impacted by the investment decisions that those persons make on behalf of, or the performance of, the Scheme, the remuneration payable to those persons has no correlation with, and as such is not inconsistent with, the manner in which sustainability risks are integrated into the Scheme's investment decision-making processes. All persons involved in the management of the Scheme are encouraged to take all risks including sustainability considerations into account as part of their roles and decision-making in line with the Trustees' ESG/Sustainability Policy as set out in this document.

Review of this Statement

This Statement of Investment Policy Principles may be revised by the Trustees at any time. Trustees will formally review this Statement on an annual basis.

In addition, the investment managers are required to make any comments or request any changes to this Statement that they feel may be appropriate in assisting the Trustees to meet their objectives.

Rebalancing Strategy / Unitisation

Monthly cash flows are invested on a reasonable endeavours basis to get the underlying fund splits as close as possible to the target fund split. Strategies are rebalanced back to the target split exactly each quarter end with a 0.25% threshold.

All of the Scheme's strategies are unitised by a third party provider in order to simplify communication for Scheme members with respect to strategy choice and performance reporting.

Signed on behalf of the Trustees

Signed on behalf of the Trustees:

ESB Pensions

Trustee Mark Eldridge ______________________ Date 16 April 2024 | 09:43 BST

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Trustee Vijay Sabnani Melwani ______________________ Date 11 April 2024 | 09:32 BST

DocuSigned by: Vijay Sabnani Melwani

This Statement of Investment Policy Principles is produced to meet the requirements of the Occupational Pension Schemes (Investment) Regulations, 2005.

Appendix A — Investment Options

Asset Class / Sub Component	Cash	Annuity Matching	Lower Risk Multi Asset	Multi Asset	Higher Risk Multi Asset	Global Equity	Sustainability Focused Global Equity
Equity	**-**	**-**	**29.50**	**60.00**	**80.00**	**100.0**	**100.0**
Irish Life Sustainable Equity Fund (Emerging Market)			3.50	10.00	11.00		
Irish Life Sustainable Equity Fund (Developed World, FX Hedged)			5.00	10.00	22.00		
ILIM Indexed Eurozone Equity Fund			2.50	3.75	9.00		
ILIM Indexed Global Infrastructure Equity Fund			6.00	10.00	7.00		
ILIM Indexed Global REIT Fund			2.00	5.00	3.00		
ILIM Indexed MSCI Minimum Volatility Fund (FX Hedged)			4.00	10.00	9.00		
ILIM Indexed Small Cap Equity Fund			4.00	5.00	9.00		
ILIM Fundamental Indexation Equity			2.50	6.25	10.00		
ILIM Indexed ACWI Equity (unhedged) Fund						30.0	
ILIM Indexed ACWI Equity (Developed World FX Hedged) Fund						70.0	
Irish Life Sustainable Equity Fund (ACWI) (unhedged)							30.0
Irish Life Sustainable Equity Fund (ACWI) (Developed World FX Hedged)							70.0
External Fund	**-**	**-**	**10.00**	**10.00**	**5.00**	**-**	**-**
Acadian Multi Asset Absolute Return Strategy			5.00	5.00	2.50		
TM Fulcrum Diversified Absolute Return Fund			5.00	5.00	2.50		
Fixed Income	**-**	**100.0**	**44.50**	**24.00**	**13.00**	**-**	**-**
Irish Life Indexed Sustainable Euro Corporate Bond Fund			15.00	6.00	3.50		
ILIM Indexed Emerging Market Debt Fund (L)			2.75	3.75	2.50		
ILIM Indexed Emerging Market Debt Fund (H)			2.75	3.75	2.50		
ILIM EMU HICP Linked Gov All Maturities			5.00	4.00	1.50		
ILIM Passive High Yield			6.00	6.50	3.00		
ILIM Euro Govt > 5 Year			3.50				
ILIM Euro Govt 1 - 5 Year			9.50				
Irish Life Annuity Matching Fund		100.0					
Cash/Gold	**100.0**	**-**	**16.00**	**6.00**	**2.00**	**-**	**-**
Irish Life Cash Fund	100.0		14.00	3.00	1.00		
Gold ETC Fund			2.00	3.00	1.00		
Total	**100.0**	**100.0**	**100.00**	**100.00**	**100.00**	**100.0**	**100.0**

Please note that ILIM manage the quarterly rebalancing within each strategy where applicable.

Strategy Name	Return Objective	Risk Objective
Lifestyle / Multi Asset (Default)	To achieve a net annualised return of 5.0% over the medium term to long term	To achieve this return with a volatility of less than 15% p.a.
Higher Risk Lifestyle / Multi Asset	To achieve a net annualised return of 6.0% over the medium term to long term	To achieve this return with a volatility of less than 20% p.a.
Lower Risk Lifestyle / Multi Asset	To achieve a net annualised return of 4.0% over the medium term to long term	To achieve this return with a volatility of less than 10% p.a.
Global Equity	To perform in line with the MSCI World ACWI Global Equity Index (Partially Hedged)	To achieve an index tracking error of less than 50bps.
Global Equity (with ESG Factors)	To perform in line with the Solactive ILIM Sustainable Global Market Equity index (Partially Hedged)	To achieve an index tracking error of less than 50bps.
Annuity Matching	To perform in line with the blended benchmark of 60% Bank of America Merrill Lynch (ML) EMU AAA/AA 15 Year Government Bond Index and 40% ML EMU Large Cap Corporate Bond Index..	To achieve an index tracking error of less than 50bps.
Cash	To outperform the 3 month EURIBOR Index	N/a
Note: The Irish Life Secured Performance Fund is no longer offered by ILIM to new contributions.		

De-Risking Paths

De-Risking Paths

This strategy follows a de-risking path over the 7 years leading up to retirement where members the personalised lifestyle strategy will be derisked into the Cash, Annuity Matching or Lower Risk Multi Asset strategies depending on what options they might take at retirement based on a cash maximisation principle. This means that it is assumed that members will always want to maximise the cash they can take at retirement. Members are free to change their derisking paths.

		Lifestyle Member Derisks From 58 to one of the following outcomes on a phased basis			
Outcome Type	Outcome Number	Cash	Annuity	ARF (Lower Risk MA)	Total
All Cash	1	100%	0%	0%	100%
Cash & Annuity	2	75%	25%	0%	100%
Cash & Annuity	3	60%	40%	0%	100%
Cash & Annuity	4	50%	50%	0%	100%
Cash & Annuity	5	40%	60%	0%	100%
Cash & Annuity	6	30%	70%	0%	100%
Cash & ARF	7	25%	0%	75%	100%

Outline of the strategies offered as part of the scheme are as follows (further information on each strategy can be found in the RetireSmart “Investment Guide”):

Cash Strategy

This strategy aims to provide stable returns, while at the same time helping to protect the capital value of the member’s account. The strategy invests in short-term gilts, money market instruments and short-term deposits. This is a low risk strategy but there is no guarantee that the performance will be positive.

Annuity Matching Strategy

This strategy aims to broadly match the movement in the cost of buying a lifetime income from an insurance company. The strategy invests in loans issued by governments and corporates in the Eurozone, which may be less volatile than investing in ‘growth’ assets. This is a low risk strategy relative to annuity pricing and in the past, has been a low to medium risk strategy

Lower Risk Lifestyle / Lower Risk Multi-Asset Strategy

This strategy aims to achieve modest growth through increases in value and income in the long-term by investing across a broad range of asset classes with a lower allocation to equities than the Multi Asset/Lifestyle or Higher Risk Lifestyle/Higher Risk Multi Asset Strategies. The investments are exposed to a broad range of assets to reduce the risk and volatility in one asset class. This is a low to medium risk strategy.

The Lower Risk Lifestyle strategy follows a de-risking path over the 7 years leading up to retirement whereas the Lower Risk Multi Asset strategy does not derisk.

Lifestyle / Multi-Asset Strategy

This strategy aims to achieve moderate growth through increases in value and income in the long-term by investing across a broad range of asset classes with a higher allocation to equities than the Lower Risk Lifestyle /Lower Risk Multi Asset Strategies. The investments are exposed to equities and a broad range of assets to reduce the risk and volatility in one asset class. This is a medium risk strategy.

The Lifestyle strategy follows a de-risking path over the 7 years leading up to retirement whereas the Multi Asset strategy does not derisk.

Higher Risk Lifestyle / Higher Risk Multi-Asset Strategy

This strategy aims to achieve above average growth through increases in value and income in the long-term by investing across a broad range of asset classes with a higher allocation to equities than the Lifestyle/Multi Asset Strategies. The investments are exposed to equities and a broad range of assets to reduce the risk and volatility in one asset class. This is a medium to high risk strategy.

The Higher Risk Lifestyle strategy follows a de-risking path over the 7 years leading up to retirement whereas the Higher Risk Multi Asset strategy does not derisk.

Global Equity Strategy

This strategy aims to maximise growth through increases in value and income in the long-term by investing in shares of a wide range of international companies in all areas of the world. This is a high-risk strategy.

Global Equity (with ESG factors) Strategy

This strategy aims to maximise growth through increases in value and income in the long-term by investing in shares of a wide range of international companies in all areas of the world. An overlay is applied by the investment manager to exclude companies that are associated with controversial, civilian, conventional, nuclear weapons and tobacco, derive revenues from thermal coal and oil sands extraction or that are not in compliance with the United Nations Global Compact principles. Additionally positive tilts are applied to companies that score highly from an ESG perspective (based on the investment manager's proprietary ESG integration model). This is a high-risk strategy.

Appendix B — ESG Investment Beliefs & Policy

The Scheme has established a set of ESG Investment Beliefs that are a guiding set of principles to be reflected in the ESG Policy and are listed below. These beliefs help guide decision-making and monitoring across the investment strategy, as well as how the Scheme expects investment managers and other relevant stakeholders to use their position to engage on key ESG themes. The Scheme's beliefs are listed below:

- The Trustees believe that ESG issues are important for long term investors, creating both risks and opportunities.
- The Trustees will be cognisant of the ESG beliefs and policies of key stakeholders but not look to mirror them at this time.
- The Trustees have an ambition to follow a best practice approach to ESG integration where they are satisfied there is no material impact on expected returns.
- The Trustees believe that a manager's approach to ESG is important, however it is one of many factors considered.
- The Trustees will monitor and engage with investment managers on ESG integration.
- The Trustees believe that ESG impact is important and will look to understand and measure social and environmental impacts through the collection of ESG metrics from investment managers where available.
- Active use of ownership rights, such as voting rights or through company engagement can be an effective way to enhance the value of an investment.
- Reputation risk is one of a number of key consideration when thinking about ESG.
- Investment manager will regularly present data on the performance of ESG funds with respect to non-ESG benchmarks, so that the Trustees can ensure they are providing superior returns.

Environmental, Social and Corporate Governance ("ESG") Policy

This Policy outlines the Scheme's Environmental, Social and Corporate Governance ("ESG") approach which incorporates the Trustees' beliefs along with details of how this Policy will be implemented.

There is a growing urgency and focus on long-term sustainability issues and ESG. This Policy is focused on high-level principles in line with the Scheme's position as an asset owner.

The Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

ESG Investment Implementation

The Trustees consider the following areas to ensure that their beliefs are incorporated into the Scheme's investment arrangements.

1. **Integration**: The Trustees consider Mercer's ESG ratings (where available) for each of their strategies. The area of climate change will be considered by engaging with investment managers and monitoring the emissions of the Scheme's investment holdings, where possible.

2. **Stewardship**: The Trustees delegate voting and engagement to the selected investment managers, who are expected to engage with portfolio companies on material sustainability risks, adverse sustainability impacts and other ESG issues with the aim of improving long-term risk adjusted returns.

3. **Investment**: The Trustees currently offer a standalone fund to members (Global Equity (with ESG factors)) which incorporates ESG-based exclusions and tilts within the fund to help manage ESG-related risks.

4. **Screening**: As an overarching principle, the Trustees prefers an integration and engagement-based approach rather than an exclusionary approach in investment portfolios. However, the Trustees may exclude or reduce exposure to companies with poorer sustainability characteristics in certain strategies.