Terra Nova Insurance Company Limited Pension & Life Assurance Scheme

Statement of Investment Principles – June 2023 (replaces December 2021)

1. Introduction

The Trustee is responsible for the investment of the assets of the Terra Nova Insurance Company Limited Pension & Life Assurance Scheme (the "Scheme").

This Statement of Investment Principles ("the Statement") has been prepared by the Trustee to comply with the requirements of the Pensions Act 1995 (the "Act"), the Occupational Pension Schemes (Investment) Regulations 2005, subsequent legislation and associated requirements. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

In preparing this Statement, the Trustee has consulted with Markel International (the "Principal Employer"). The Trustee has also obtained and considered advice from Mercer Ltd ("the Investment Consultant"). The Trustee believes the Investment Consultant meets the requirements of Section 35(5) of the Pensions Act 1995 (as amended).

In November 2008 the assets from the Lloyds Superannuation Fund ("LSF") were transferred into the Scheme. Therefore, the Scheme has two key sections, the TN Section and the LSF Section, as well as an AVC Section.

2. Process for Choosing Investments

The Trustee has considered its investment and funding objectives together and in light of the strength of the Principal Employer covenant to ensure that the two are compatible and supportable. The Trustee has then constructed a portfolio of investments consistent with these objectives and which it expects will deliver an appropriate level of return (net of all costs) for the level of risk taken on (taking into account limitations on the overall complexity of arrangements appropriate to the size of assets under management).

The Trustee takes into account what it believes to be financially material considerations over an appropriate time horizon, which can include risk and return expectations as well as Environmental, Social and Governance ("ESG") issues where these are considered to have a material impact on income, value or volatility of an investment held or the overall portfolio of investments held by the Scheme. Specific considerations are detailed throughout this Statement.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of the Investment Consultant whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The objectives set out here, and the risks and other factors referenced, are those that the Trustee determines to be financially material considerations in relation to the Scheme.

The Trustee is required to invest the Scheme's assets in the best interest of the members, beneficiaries and the Principal Employer and in the case of a potential conflict in the sole interest of the members and beneficiaries.

Overall investment policy is governed by the following principles:

- *The investment policy should be planned to meet the individual needs of the Scheme.*
- *There should be close management of the risk in the investment policy.*
- *The investment policy should be managed through precise objectives.*

Within this context, the Trustee (in consultation with the Principal Employer) has set the following main objectives with regard to investment policy:

- To make sure that the Trustee can meet the obligations which have been promised to the beneficiaries of the Scheme by the Principal Employer.
- To pay due regard to the Principal Employer's interests in the size and incidence of employers' contribution payments.
- To ensure that the investment policies pay due attention to the liability profile of the Scheme and achieve the desired balance between risk and performance.
- To regularly review the investment manager and monitor performance against benchmarks.

Given the nature of the liabilities the investment time horizon of the Scheme is potentially long-term, however the Scheme is deemed to be fully funded. Any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) are expected to shorten the Scheme's investment horizon significantly.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme. The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover changes in the Scheme's accrued liabilities especially over the short to medium term. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk. The Trustee's policy on risk management over the Scheme's anticipated lifetime is set out below.

Key strategic investment risks that impact on Scheme funding are as follows:

- Market Risk – the risk that asset valuations fluctuate in an uncorrelated way with the value of the liabilities;
- Interest Rate Risk – the risk that changes in the value of the assets do not move in line with changes in the value placed on the Scheme's liabilities in response to changes in interest rates;
- Inflation Risk – similar to interest rate risk but concerning inflation;

- Credit Risk – the risk that one party to a financial instrument will cause a financial loss to the Scheme by failing to discharge an obligation.

- Liquidity Risk – the risk that the Scheme doesn't have sufficient liquid assets to meet payments.

Considerations specific to Environmental, Social and Governance issues are addressed in Section 13.

The Trustee measures risk using asset-liability modelling conducted by Mercer which measures the contribution of different risk factors to overall Value at Risk ("VaR"). The policy taken to manage risk is set out below:

- Market risk is managed via the strategic allocation to the various asset classes which achieves diversification across sectors, issuers and asset classes.

- Interest rate and inflation risk is managed through an allocation to bonds which change in value in a similar manner to the Scheme's liabilities in response to changes in long-term interest rates and inflation.

- Credit risk is managed via the strategic allocation and investing in pooled fund(s) with diversified holdings of bonds that are predominantly of investment grade quality.

- Regarding liquidity risk, the Trustee believes that the majority of the Scheme's investments are realisable at short notice in most market conditions.

The Trustee recognises the following additional risks and takes the following steps to manage risk:

- Risks may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the investment policy in place results in an adequately diversified portfolio;

- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active management involves such a risk, and has therefore decided to use passive management for the vast majority of the Scheme's assets.;

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that, in conjunction with overall asset allocation policy, the investments held by the Scheme and the amount invested in them are suitable. The managers are prevented from investing in asset classes outside of their mandates without the Trustee's prior consent;

- The Trustee receives regular reports from the Scheme's investment manager and Mercer in its role as Investment Consultant for the Scheme. The Trustee also meets with the Scheme's investment manager periodically. Combined with discussion in regular Trustee meetings this allows the Trustee to check that nothing has occurred that would bring into question the continuing suitability of the current investments.

- The safe custody of the Scheme's assets is delegated to professional custodians either directly or via the use of pooled vehicles.

- Across all of the Scheme's investments, the Trustee is aware of the potential for regulatory and political risks. Regulatory risk arises from investing in a market environment where the regulatory regime may change.

Overall, the Trustee primarily measures and manages investment risk through the investment strategy (outlined in Section 5) and reviews the appropriateness of this strategy on a regular basis.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Principal Employer and its willingness to contribute appropriately to the Scheme. The financial strength of the Principal Employer and its perceived commitment to the Scheme is monitored and the Trustee will reduce investment risk relative to the liabilities should either of these significantly deteriorate.

The degree of investment risk the Trustee is willing to take also depends on other circumstances, including the financial health of the Scheme, the Scheme's liability profile and investment time horizon. The Trustee will monitor these with a view to altering the investment objectives, risk tolerance and/or return target and asset mix, should there be a significant change in these factors.

5. Investment Strategy

The primary means of implementing overall investment policy is via the strategic asset allocation. The principles are:

- A strategic asset allocation should be defined which broadly matches the objectives of the Scheme in the long term.
- The Trustee will monitor the position relative to the strategic asset allocation and allocation ranges, and may from time to time take action to return the assets towards that strategic asset allocation.
- Cashflows shall be withdrawn from the Scheme's assets in a manner consistent with the strategic asset allocation.

The Trustee has agreed, based on expert advice, an investment strategy that is consistent with the Trustee's funding and investment objectives. The split of assets within each asset class (excluding any cash held separately to meet day to day cash flow requirements) is set out in the tables below.

TN Section

The following table sets out the strategic asset allocation for the TN Section:

Fund	Strategic Allocation (%)	Allocation Range (%)
Risk Reduction Assets	**100.0**	
Aquila Life Corporate Bond Index Fund All Stocks	30.0	25.0 – 35.0
Benchmark – Markit iBoxx Sterling Non-Gilts (All Stocks) Index		
Aquila Life All Stocks UK Gilt Index Fund	27.0	22.0 – 32.0
Benchmark – FTSE UK Gilts All Stocks Index		
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	36.0	31.0 – 41.0
Benchmark – FTSE Over 5 Years Index-Linked Gilts Index		
BlackRock ICS Sterling Liquidity Fund	7.0	n/a
Benchmark – Sterling Overnight Index Average Rate (SONIA)		
Total	**100.0**	

LSF Section

The following table sets out the strategic asset allocation for the LSF Section:

Fund	Strategic Allocation (%)	Allocation Range (%)
Risk Reduction Assets	**100.0**	
Aquila Life Corporate Bond Index Fund All Stocks	35.0	30.0 – 40.0
Benchmark – Markit iBoxx Sterling Non-Gilts (All Stocks) Index		
Aquila Life All Stocks UK Gilt Index Fund	27.5	22.5 – 32.5
Benchmark – FTSE UK Gilts All Stocks Index		
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	37.5	32.5 – 42.5
Benchmark – FTSE Over 5 Years Index-Linked Gilts Index		
Total	**100.0**	

The Trustee recognises that the actual allocation will deviate from this target due to market movements.

The Trustee will monitor the overall asset allocation on a regular basis. Any breach of the allocation ranges above will trigger a discussion and potentially rebalancing towards the strategic asset allocation.

6. Expected Return

The Trustee expects to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Scheme's funding has been agreed. It is recognised that over the short term performance may deviate from the long term target.

7. Selection, Retention and Realisation of Investments

The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.

The investment manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

In the normal course of events, it is expected that cashflows are used to move the asset allocation towards the benchmark allocation. The Trustee, with advice from the Investment Consultant, reviews the cashflow policy on a regular basis.

- Disinvestments to meet cashflow requirements will generally be made from the most overweight asset class in order to rebalance towards the strategic asset allocation, subject to limits agreed by the Trustee. Disinvestments above this limit will be agreed by the Trustee on a case by case basis.

- The investment of any positive cashflows will be considered on a case-by-case basis.

8. Portfolio Construction

The Trustee has adopted the following principles subject to the overriding constraint that at the total Scheme level the expected level of risk is consistent with that detailed in Sections 3 and 4 and subject to the Trust Deed & Rules:

- There is a preference for **passive management**. Passive management involves employing investment managers to deliver a return equal to a chosen benchmark appropriate to the asset class held. Active management involves employing investment managers who aim to outperform a benchmark but with a risk that they will underperform. By primarily employing passive management, the Trustee expects to reduce the likelihood of underperforming the underlying market for each asset class.

- Decisions on **segregated vs pooled** investments will be taken based on the particular circumstances, including the need for diversification, available vehicle, investment restrictions contained in pooled funds, the need for and availability of an independent custodian, ease of administration and portability of underlying investments. However, the Trustee anticipates investing primarily on a pooled basis.

- **Specialist mandates** are preferred over generalists because of the potential to access a higher level of expertise. However, the Trustee limits the number of directly appointed managers so as to manage their overall monitoring requirements.

- At the total Scheme level investments should be **broadly diversified** to ensure there is not a concentration of exposure to any one market or issuer, to the extent that this is not protected (e.g. by collateral). This restriction does not apply to investment in UK Government bonds.

- The amount invested in **highly concentrated portfolios** will take into account the level of risk this represents taking into account the Scheme's assets overall.

- The Trustee will not invest directly in the **Principal Employer** or associated companies, but acknowledge that indirect investment is possible as a result of the investment policies of the Scheme's pooled investment manager. The Trustee will invest in such a way that indirect exposure will not exceed 5% of total assets.

- No investment is permitted by an appointed investment manager in the securities issued by the relevant **manager's company or any affiliated companies** (other than any such securities held within a pooled fund in which the Trustee invests).

- **Direct borrowing** (such as the use of an overdraft facility) is not permitted except to cover short term liquidity requirements. The use of **borrowing within pooled funds** is reviewed by the Trustee as part of the onboarding process for new investments.

9. Day-to-Day Management of the Assets

The Trustee has delegated the day-to-day management of the assets, including selection, retention and realisation, to an investment manager. The Trustee uses BlackRock Advisors UK Limited ("BlackRock") to passively manage all assets with the exception of the Liquidity Fund within the TN Section which is managed by BlackRock on an active basis. The Trustee has taken steps to satisfy itself that the manager has the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which the appointed investment manager may operate.

BlackRock is regulated in the UK by the Financial Conduct Authority ("FCA") and has day to day responsibility for the investment of the underlying assets of the pooled funds in which the Scheme's assets are invested. As required by the Financial Services and Markets Act 2000, the Pensions Act 1995 and subsequent legislation, the Trustee has entered into a signed agreement with BlackRock, the terms of which are consistent with the principles contained in this Statement. The agreement sets out the terms on which the assets are managed, including the investment briefs, guidelines and restrictions under which BlackRock works.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed manager. They do so via regular reports and periodic presentations from the appointed manager with the assistance of the Scheme's Investment Consultant. Any adjustment would be done with the aim of ensuring consistency with this Statement.

Section 15 sets out how the Trustee incentivises investment managers, where applicable, to operate in line with the Trustee's objectives.

10. Fees

Investment manager fees are paid based on the market value of assets under management.

The Scheme's Investment Consultant is generally remunerated on a time and disbursements basis, however some projects may be based on pre-agreed budgets.

11. Additional Assets

Under the terms of the trust deed the Trustee is responsible for the investment of additional voluntary contributions ("AVCs") paid by members. Assets in respect of members' AVCs are invested in the following Aegon investment vehicles:

- Aegon BlackRock (70/30) Global Equity Fund
- Aegon BlackRock All Stocks Gilt Index Fund
- Aegon BlackRock Cash Fund
- Aegon BlackRock Over 15 Year Gilt Index Fund
- Aegon BlackRock Over 5 Year Index-Linked Gilt Fund
- Aegon BlackRock Overseas Bond Index Fund
- Aegon BlackRock UK Equity Index Fund

Having received legal advice, each of the funds above has been designated as an additional default arrangement. The implications of this are expanded upon and covered in detail in the Appendix to this Statement.

With the assistance of the Scheme's Investment Consultant, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustee and needs of the members.

The Scheme also holds a small amount of assets in respect of transfers-in and annuities in payment.

12. Custody

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment manager.

The Trustee has appointed the Bank of New York Mellon ("BNY Mellon") to provide custodial services in regards to the custody of the pooled fund units invested with BlackRock.

Within the pooled arrangements, BlackRock are responsible for appointing a custodian.

13. ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustee believes that financially material factors, including environmental, social, and corporate governance (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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme's assets are invested in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to the investment manager, including the selection, retention and realisation of investments within their mandate. In doing so the investment manager is expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. This applies to debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Trustee engages with the investment manager on these issues through (amongst other things) meetings and periodic correspondence and will monitor investment manager engagement activity at least annually. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustee accepts that the primary role of its passive manager is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment manager is undertaken on a regular basis and this makes use of the Investment Consultant's ESG ratings. This is documented at least annually and the Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee will challenge the investment manager if they believe they are taking insufficient account of ESG considerations in implementing a mandate.

The Trustee has not set any investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

14. Non-Financial Matters

Members' views on "non-financial matters" (where non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.

15. Investment Manager Arrangements

Aligning Investment Manager Objectives and Incentivisation

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitably long time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of "tracking error" against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, as well as the investment manager's approach to ESG and engagement activity, as they apply to the specific investment strategy being considered.

The Trustee invests in pooled investment vehicles and accept that they have little or no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee's own policy in terms of investment objectives and guidelines (as set out in relevant governing documents) and, once appointed, will review the appointment should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee's overall investment time horizon) and there is typically no set duration for the manager appointments. However, appointments can typically be terminated at short notice.

For each appointment retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve its investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

The investment manager is therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages the investment manager to take a suitably long term view when assessing the performance prospects of, and engaging with, the debt issuers in which they invest or seek to invest.

Performance Assessment & Fees

The Trustee receives reporting on asset class and the investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment manager.

Investment returns (and volatility) are measured on an absolute basis and considered relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.

As well as assessing investment returns the Trustee will consider a range of other factors, with the assistance of their Investment Consultant, when assessing the investment manager, which may include:

- Personnel and business change;
- Portfolio characteristics (including risk and compatibility with objectives) and turnover;
- Engagement activity;
- Service standards;
- Operational controls; and
- The Investment Consultant's assessment of ongoing prospects based on their research ratings.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive the associated fee. The Trustee will consider any performance related fees on a case by case basis and would also consider requesting fee reductions. The investment manager is not remunerated based on portfolio turnover.

Portfolio Turnover Costs

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored the investment manager's ongoing transaction costs explicitly, but measures these implicitly through ongoing performance assessments which are net of these costs. The Trustee will seek explicit reporting on ongoing costs for the appointed investment manager.

The Trustee does not monitor regular cashflow costs (but seeks to minimise them through ongoing cashflow policy). The Trustee monitors the costs of implementing strategic change via their Investment Consultant.

16. Compliance and Review of this Statement

The Trustee will review and monitor compliance with this Statement annually and without delay following any material changes to any aspects of the Scheme, its liabilities, finances and the attitudes to risk of the Trustee and Principal Employer which they judge to have a bearing on the stated Investment Policy. This will take place no less frequently than every three years to coincide with the actuarial valuation. Any such review will be based on expert investment advice.

Appendix A – Additional default arrangements

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee has identified the investment options listed in the table below as ‘default arrangements’ (as defined by these regulations).

These have been identified as ‘additional default arrangements’ as members’ accrued funds and contributions have been automatically directed to these funds without members having instructed the Trustee where their contributions were to be invested. These are not default arrangements for the purposes of auto-enrolment; these defaults exist due to the effective removal of investment options choice when:

- the funds for TN Section members were segregated from the DB assets of the Scheme in 2010
- the funds for LSF Section members were transferred into the Scheme from the Lloyds Superannuation Fund.

Further explanation and detail is provided in the table below.

<table>
<tr><th>Fund</th><th>Reason for identification as a ‘default arrangement’</th><th>Scheme inception date</th></tr>
<tr><td>Aegon BlackRock (70/30) Global Equity Fund</td><td rowspan="7">These defaults were created when funds were:
- segregated from the DB assets (TN Section members)
- transferred from the Lloyds Superannuation Fund (LSF Section members)</td><td rowspan="7">21 May 2010</td></tr>
<tr><td>Aegon BlackRock All Stocks Gilt Index Fund</td></tr>
<tr><td>Aegon BlackRock Cash Fund</td></tr>
<tr><td>Aegon BlackRock Over 15 Year Gilt Index Fund</td></tr>
<tr><td>Aegon BlackRock Over 5 Year Index-Linked Gilt Fund</td></tr>
<tr><td>Aegon BlackRock Overseas Bond Index Fund</td></tr>
<tr><td>Aegon BlackRock UK Equity Index Fund</td></tr>
</table>

Prior to mapping members' investments across to the replacement funds, the Trustee took appropriate investment advice and considered these funds to be suitable for members, in order to keep members in a similar type of investment fund as they were in previously, and taking account of the demographics of the members invested in the funds. The Total Expense Ratios (‘TERs’), which is the cost associated with the managing and operating of the funds, are below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options.

The Trustee’s objectives in relation to the additional default arrangements is to provide members with a fund that represented a suitable replacement, in terms of broad asset class exposures or expected risk and return characteristics, for the one from which it received Scheme member assets.

The risks associated with these investments have been considered in line with table set out below:

<table>
<tr><th colspan="2">Type of Risk</th><th>Description</th><th>How is the risk managed and measured?</th></tr>
<tr><td rowspan="4">Market Risk</td><td>Inflation Risk</td><td>The risk that the investment return over members’ working lives will not keep pace with inflation.</td><td rowspan="4">The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with or exceed inflation over the long term.

Members are able to set their own investment allocations, in line with their risk tolerances.

Where active management is employed, management of many of these risks is the responsibility of the investment manager.

The Trustee considers fund performance on a quarterly basis.</td></tr>
<tr><td>Currency Risk</td><td>The risk that fluctuations in foreign exchange rates will cause the sterling value of overseas investments to fluctuate.</td></tr>
<tr><td>Credit Risk</td><td>The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.</td></tr>
<tr><td>Equity and other price risk</td><td>The risk that investment market movements lead to a substantial reduction in the market value of investments.</td></tr>
<tr><td colspan="2">Pension Conversion Risk</td><td>Members’ investments do not match how they would like to use their pots in retirement.</td><td>Members are able to build portfolios suitable for each of the three ways that they can provide money purchase benefits at retirement (as cash, income drawdown or annuity purchase) based on the range of funds made available.</td></tr>
<tr><td colspan="2">Liquidity Risk</td><td>The risk that the Scheme’s assets cannot be realised at short notice in line with demand.</td><td>The Scheme’s assets are invested in daily dealt and daily priced pooled funds.

estment managers are expected to manage the liquidity of assets in the underlying strategies and keep exposures to any illiquid assets to prudent levels.</td></tr>
<tr><td colspan="2">Investment Manager Risk</td><td>The risk that the investment manager does not meet its fund performance objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.</td><td>The Trustee considers fund returns relative to the benchmark. This is monitored on a quarterly basis.

The Trustee considers the Investment Consultant’s rating of the investment manager on an ongoing basis.</td></tr>
</table>

Type of Risk	Description	How is the risk managed and measured?
Environmental, Social and Governance Risk	The risk that ESG factors, including climate change, have a financially material impact on the return of the Scheme's assets.	The management of this risk has been considered and investment managers are expected to integrate this into their processes. The Trustee reviews the investment managers' policies and actions in relation to this from time to time. The Trustee's policy on Responsible Investment and Corporate Governance is set out in Section 13

The following policies are applicable to each of the additional default arrangements:

- Details of how the Trustee approaches the integration of ESG factors in the investment approach of these funds, and the extent to which non-financial factors are taken into account, are set out in the ESG, Stewardship (including Engagement Activities) and Climate Change, and Non-Financial Matters sections of this document (Sections 13 and 14, respectively).

- Details of how the Trustee manages the alignment of investment manager incentives with are set out in the Investment Manager Arrangements section of this document (Section 15).

- Assets in the additional default arrangements are ultimately invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by BlackRock.

- The selection, retention and realisation of assets within the pooled funds is at the discretion of the investment manager in line with the mandates of the funds. Likewise, the investment manager has full discretion (within the constraints of their mandate) on the extent to which social, environmental or ethical conditions are taken into account in the selection, retention and realisation of investments.

The Trustee will review the additional default arrangements at least every three years and without delay after any significant change in the investment policy or the demographic profile of relevant members. The Trustee monitors the performance of the additional default arrangements quarterly via monitoring reports and receive advice from the Investment Consultant, which includes consideration of investment performance net of management fees and the Trustee's stated aims and objectives.