

Reeves Oilfield Services Ltd. Pensions Scheme (Scheme 2)

Statement of Investment Principles

Barnett Waddingham LLP

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Contents

| | |
|--|----|
| Reeves Oilfield Services Ltd. Pensions Scheme (Scheme 2) | 1 |
| Introduction..... | 3 |
| 2. Choosing investments..... | 3 |
| 3. Investment objectives | 4 |
| 4. Kinds of investments to be held | 4 |
| 5. The balance between different kinds of investments..... | 4 |
| 6. Risks..... | 4 |
| 7. Expected return on investments | 5 |
| 8. Realisation of investments | 6 |
| 9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities | 6 |
| 10. Policy on arrangements with asset managers | 6 |
| 11. Monitoring | 8 |
| Appendix 1 | |
| 1. The balance between different kinds of investment..... | 9 |
| 2. Default option | 9 |
| 3. Alternative investment options | 13 |
| Appendix 2: | |
| 1. Financially Material Considerations..... | 16 |
| 2. Non-financially material considerations..... | 17 |
| 3. The exercise of voting rights | 17 |
| 4. Engagement activities | 17 |

Introduction

- 1.1. This is the Statement of Investment Principles prepared by the Trustees and relates to the defined contribution (DC) benefits provided through the Reeves Oilfield Services Ltd Pension Plan (Scheme 2) ("Scheme 2"). This statement sets down the principles which govern the decisions about investments that enable Scheme 2 to meet the requirements of:
 - the Pensions Act 1995, as amended by the Pensions Act 2004; and
 - the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
 - the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.
- 1.2. In preparing this statement the Trustees have consulted Reeves Wireline Technologies Ltd., the Principal Employer, and obtained advice from Barnett Waddingham LLP the Trustees' investment consultant. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.
- 1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.
- 1.4. The Trustees will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.
- 1.5. The investment powers of the Trustees are set out in Clause five of the Definitive Trust Deed & Rules, dated 14 December 2015. This statement is consistent with those powers.

2. Choosing investments

- 2.1. The Trustees carefully consider its Investment Objectives, shown in the Appendix, when designing the range of investment options to offer to its members. The Trustees also acknowledge that members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of Scheme 2.
- 2.2. The Trustees' policy is to offer a default investment arrangement plus a core range of investment funds suitable for Scheme 2's membership profile into which members can choose to invest their contributions and those contributions made by the employer. Details of these are given in the Appendix. In doing so, the Trustees consider the advice of their professional advisers, whom they consider to be suitably qualified and experienced for this role.
- 2.3. The day-to-day management of Scheme 2's assets is delegated to one or more investment managers. Scheme 2's investment managers are detailed in the Appendix to this Statement. The investment managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights.
- 2.4. The Trustees review the appropriateness of Scheme 2's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to

performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

- 3.1. The Trustees have discussed and agreed key investment objectives in light of an analysis of Scheme 2's membership profile as well as the constraints the Trustees face in achieving these objectives. These are set out in the Appendix.

4. Kinds of investments to be held

- 4.1. Scheme 2 is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

5. The balance between different kinds of investments

- 5.1. Members can choose to invest in any of the funds detailed in the Appendix. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the default investment strategy set out in the Appendix.
- 5.2. The Trustees consider the merits of both active and passive management for the various elements of Scheme 2's portfolio and may select different approaches for different asset classes.
- 5.3. The Trustees are aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

6. Risks

- 6.1. Risk in a defined contribution scheme lies with the members themselves. The Trustees has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustees' risk register, however, the main investment risks affecting all members are set out overleaf:

| | |
|----------------------------------|---|
| Inflation Risk | The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustees make available investment options that are expected to provide a long-term real rate of return. |
| Conversion risk | The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. In the lifestyle arrangements made available through Scheme 2 (see Appendix), the Trustees change the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustees expect members to access their retirement savings. The Trustees keep under review the appropriateness of the strategies. |
| Retirement income risk | The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustees periodically review the appropriateness of the investment options offered to ensure member outcomes can be maximised. Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member. |
| Investment manager risk | The Trustees monitor the performance of Scheme 2's investment manager on a regular basis in addition to having meetings with them from time to time as necessary. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how the investment manager may operate. |
| Concentration/Market risk | Each investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities. |
| Currency risk | Scheme 2 may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. |
| Loss of investment | The risk of loss of investment by the investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee also undertakes an annual review of the internal controls and processes of the investment manager. |

7. Expected return on investments

- 7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment managers.
- 7.2. The Trustees recognise the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.
- 7.3. The Trustee reviews the performance of the range of funds, at least quarterly to ensure they perform in line with expectations.

8. Realisation of investments

- 8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment managers.

9. Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

- 9.1. The Trustees have set policies in relation to these matters. These policies are set out in the Appendix.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustees' investment policies

- 10.1. Prior to appointing an investment manager, the Trustees discuss the investment manager's approach to the management of ESG and climate related risks with Scheme 2's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.
- 10.2. When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.
- 10.3. The Trustees carry out a strategy review at least every three years where they assess the continuing relevance of the strategy in the context of Scheme 2's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.
- 10.4. In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment will be terminated. The investment managers have been informed of this by the Trustees.
- 10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment manager.

Incentivising assessments based on medium to long term, financial and non-financial considerations

- 10.6. The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees acknowledge this in their investment management arrangements.
- 10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a

rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

- 10.8. The Trustees expect investment managers to be voting and engaging on behalf of Scheme 2's holdings and the Trustees monitor this activity within the Implementation Statement in Scheme 2's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets.

Method and time horizon for assessing performance

- 10.9. The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.
- 10.10. The Trustee carries out a strategy review at least every three years where it assesses the continuing relevance of its investment strategy in the context of the Scheme 2's membership and its objectives and investment beliefs.
- 10.11. Scheme 2 invests in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.
- 10.12. The Trustees ask Scheme 2's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

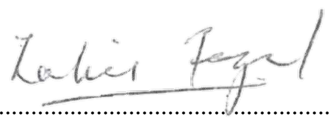
- 10.13. The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance is assessed as part of the quarterly investment monitoring process.
- 10.14. During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

Duration of arrangement with asset manager

- 10.15. For the open-ended pooled funds in which Scheme 2's invests, there are no predetermined terms of agreement with the investment managers.
- 10.16. The suitability of Scheme 2's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Monitoring

- 11.1. **Investment Performance:** The Trustees review the performance of each investment option offered through Scheme 2 against the stated performance objective and, in doing this, the Trustees receive a performance monitoring report from Standard Life on a regular basis. This monitoring takes into account both short-term and long-term performance. The investment manager's overall suitability for each mandate will be monitored as frequently as the Trustees consider appropriate in light of both its performance and other prevailing circumstances.
- 11.2. **Objectives:** The Trustees monitor the suitability of the objectives for Scheme 2 (as detailed in the appendix) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.
12. **Investment Choices:** The Trustees monitor the ongoing appropriateness of the investment choices offered on a periodic basis.
13. **Investment Beliefs:** The Trustee has an Investment Beliefs Policy which it refers to in making investment decisions.
- 13.1. This Statement was agreed by the Trustees, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the Principal Employer, the investment manager, the actuary and the auditor upon request.


Signed:.....

Date: 25 September 2024.....

On behalf of the Reeves Oilfield Services Ltd Pension Scheme (Scheme 2)

Appendix 1 Note on investment policy of Scheme 2 in relation to the current Statement of Investment Principles

1. The balance between different kinds of investment

The Trustees' main investment objectives are:

- To provide a suitable default investment option that is likely to be suitable for a typical member.
- Seek to achieve good member outcomes net of fees and subject to acceptable levels of risk.
- The Trustees will monitor members' decisions and other inputs at least annually to ensure that the default investment strategy remains suited to their needs. They will also review the investment choices available to members to ensure that those who regard the default strategy as unsuited to their needs have suitable alternative investment funds to select from.

The Trustees have further objectives regarding the self-select funds, these are:

- Provide the member with a 'self-select' range of 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.
- Balance between offering a range of investments which meet member risk vs return requirements and offering too much choice which might make decision making difficult.
- Consideration of member beliefs and what funds it might be reasonable to offer based on beliefs.

The Trustees are responsible for the design of the default investment option and for choosing which investment options to make available to members. If a member does not make a choice of where their contributions should be invested then their contributions will be directed to the default investment option.

The Trustee has made available a range of funds to suit the individual needs of Scheme 2's members. For example, a range of equity funds is available for those members willing to accept a greater level of volatility in pursuit of higher expected retirement savings. Bond and cash funds are also offered for those members who are less comfortable with the likely volatility of the equity funds.

2. Default option

The Trustees acknowledge that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed Scheme 2's membership profile, the Trustees decided that the lifestyle arrangement set out below represents a suitable default investment option for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default

option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries.

The default strategy aims to:

- To generate long-term returns in excess of inflation during the “growth” phase of the strategy.

The default arrangement’s growth phase structure invests in a multi-asset fund with exposure mainly to equities along with some exposure to other growth-seeking assets and more defensive asset classes such as bonds. These investments are expected to provide long term growth with some protection against inflation erosion, and an element of diversification to reduce volatility and downside risk.

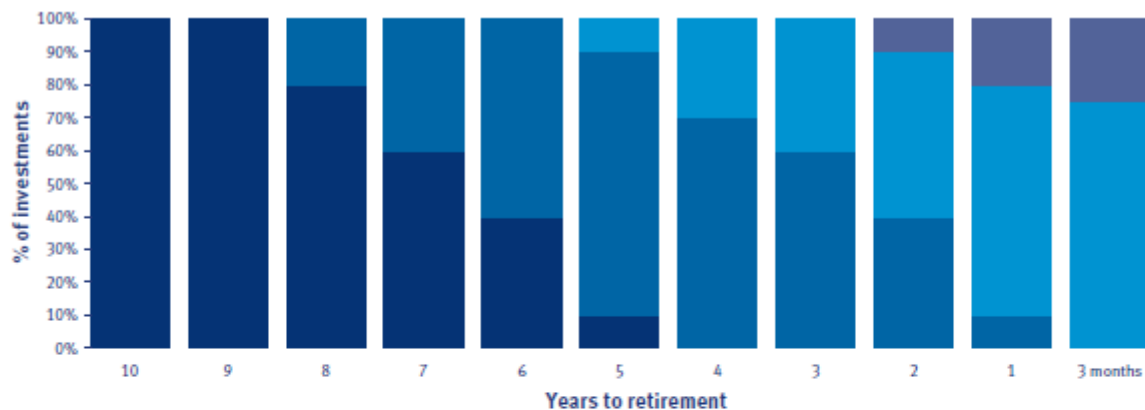
- To provide a strategy that reduces investment risk for members as they approach retirement.

As a member’s savings grow, investment risk will have a greater impact on retirement outcomes. Therefore, the Trustees believe that a default arrangement that seeks to reduce investment risk as the member approaches retirement is appropriate.

From 8 years before retirement, investment in growth assets gradually reduces and introduces a variety of more defensive assets, such as gilts, corporate bonds and other fixed income assets as members approach retirement.

At the selected retirement date, 25% of members’ savings are invested in a cash fund. The remainder is invested in a diversified multi-asset which invests in a diversified range of UK and overseas assets, including equities, bonds, property and cash. The Trustees believe this provides a well-diversified mix of growth and defensive assets for members who are either planning to remain invested after retirement or who have not made up their minds how they wish to withdraw benefits as they approach retirement.

The default arrangement is known as the Balanced Managed II Universal Lifestyle Profile (4BAL). The change in investments as a member approaches retirement is shown in the chart overleaf, provided by Standard Life:



| Name | Code | Volatility rating | FMC | Additional expenses | Scheme rebate | Effective total annual fund charge | Active/passive investment |
|--|------|-------------------|-------|---------------------|---------------|------------------------------------|---------------------------|
| Standard Life At Retirement (Multi Asset Universal) Pension Fund | F9 | 4 | 1.00% | 0.04% | 0.60% | 0.44% | Active |
| Standard Life Deposit and Treasury Pension Fund | G4 | 1 | 1.00% | 0.01% | 0.60% | 0.41% | Active |
| Standard Life Managed Pension Fund | FA | 5 | 1.00% | 0.02% | 0.60% | 0.42% | Active |
| Standard Life Multi Asset Managed (20-60% Shares) Pension Fund | F8 | 4 | 1.00% | 0.02% | 0.60% | 0.42% | Active |

The charges and rebates are not guaranteed. They are regularly reviewed and may be changed in the future.

Based on their understanding of Scheme 2's membership, the Trustees believe that the objectives and above strategy reflect members' best interests. The rationale underpinning this belief is as follows:

- The Trustees believe that most members save into a pension plan in order to achieve a sustainable income in retirement. However, the Trustees also believe that many members will utilise the new flexibility available to them, at least for part of their retirement. A further cohort will be unsure about how they wish to withdraw benefits even when very close to retirement. While no single strategy can wholly align with all of these outcomes, the default strategy is designed to align with each of them to a material degree.
- The diversified nature of the investments in the default arrangement as members approach retirement also accommodates the broadest set of members approaching retirement. This diversification of investments minimises the mismatch risk of members taking benefits in a different form to the default arrangement. It should also provide a lower level of volatility than in the growth phase in order to preserve the member's pot so that the member may decide at retirement how to withdraw benefits.
- The Trustees believe that members are likely to take a tax-free cash sum at retirement. The use of the cash fund as part of the default investment strategy addresses that requirement. The Trustees will monitor members' decisions and other inputs at least annually to ensure that the default investment strategy remains suited to their needs. They will also review the investment choices available to members to ensure that those who regard the default strategy as unsuited to their needs have suitable alternative investment funds to select from.

Investment in illiquid assets are expected to bring certain benefits to members including diversification, return enhancement and inflation protection. The Trustee believes these advantages can outweigh the disadvantages of reduced liquidity, higher investment fees and higher investment risk.

Standard Life does not currently invest any of the members' funds in illiquid assets. They have signed the Mansion House compact, which promises to invest at least 5% of their portfolio in illiquid assets. At the time of writing, it has not been decided by Standard Life when illiquid assets will be added or what kind of illiquid assets will be added to the portfolio.

The statements made in the main body of this Statement of Investment Principles also apply to the default arrangement.

3. Alternative investment options

Acknowledging the challenge of identifying the best solution for different groups of members, and in focusing on its key objective, the Trustees have focused on the default strategy. Alongside the default investment option, the Trustees also makes available a range of core alternative investment choices through Standard Life when a member enters Scheme 2 as set out below:

| Fund type | | | Objective | Target/benchmark | |
|-------------------------------------|----------------------------------|--|--|---------------------------|-----------------------------|
| Standard Pension Fund | Life Managed | | The fund aims to provide long term growth whilst investing in a diversified portfolio of assets (including equities, bonds, property, cash deposits and money-market instruments) in order to reduce the risk associated with being solely invested in any one asset class. These assets can be from both the UK and overseas. | ABI (Pension) Investment | Mixed 40%-85% Shares sector |
| Standard Managed Pension Fund | Life Multi Asset (20-60% Shares) | | The fund aims to provide long term growth whilst investing in a diversified portfolio of assets (including equities, bonds, property, cash deposits and money-market instruments) in order to reduce the risk associated with being solely invested in any one asset class. These assets can be from both the UK and overseas. | ABI (Pensions) Investment | Mixed 20%-60% Shares sector |
| Standard (Multi Asset) Pension Fund | Life At Retirement (Universal) | | The goal of this fund is to help make sure that at your retirement date your money is in investments which are considered appropriate if you have yet to decide how you're going to take your retirement income or if you want to take a flexible income (known as drawdown). | Custom Index | Composite |
| Standard Targeting Pension Fund | Life Annuity | | The fund is designed for investors approaching retirement and considering purchasing a fixed annuity. It aims to reduce the effect of changes in long term interest rates on the value of annuity that can be purchased. | Custom Index | Composite |
| Standard Treasury Pension Fund | Life Deposit and | | The primary aim of the fund is to maintain capital and provide returns before charges in line with short term money market rates by investing in deposits and short-term money market instruments. | SONIA | |

| | | |
|---|--|---|
| Standard Life UK Equity Pension Fund | The fund aims to provide long term growth and is designed for investors who are looking for exposure to the UK equity market by investing in a diversified portfolio of UK equity assets. The fund invests predominantly in the shares of large and medium sized companies listed on the UK stock markets and is actively managed. | FTSE All Share ex Inv Co Total Return GBP Index |
| Standard Life 30:70 Global Equity Tracker Pension Fund | The fund aims to provide long term growth by investing in a portfolio of UK and overseas equity assets. The proportions held in each component are decided after reviewing the prospects for each market and will vary from time to time around the long term strategic asset allocation of 30% in UK equities and 70% in overseas equities. Both the UK and overseas components are actively managed. | 70% MSCI World Ex UK Total Return GBP Index; 30% FTSE All-Share Total Return GBP Index |
| Standard Life Index Linked Bond Pension Fund | The fund aims to provide long term growth from a combination of income and capital growth by investing predominantly in index-linked stock issued by the UK government. The fund is actively managed. | FTSE Actuaries UK Index-Linked Gilts Over 5 Years Total Return GBP index |
| Standard Life HSBC Islamic Global Equity Index Pension Fund | The fund aims to track as closely as possible the performance of the benchmark. The benchmark index is designed to measure the performance of the largest 100 companies traded globally that pass rule-based screens for adherence to Shariah Principles. | Dow Jones Islamic Market Titans 100 Total Return GBP Index (+1 Day) |
| Standard Life Cautious Managed II Universal Lifestyle Profile | This a lifestyle strategy that aims to give the member flexibility in how and when to take money from their pension savings, whilst carrying less volatility compared to the default investment strategy. | Custom composite benchmark |

Upon entry into Scheme 2 an extended list of alternative funds and lifestyle options including Scheme 2's legacy default investment strategy, the Standard Life Balanced Managed Universal Lifestyle Profile (3BAL), becomes available to the members, in addition to the core funds listed above. The full range of funds and lifestyle options available to members can be found in the below link:

<https://www.standardlife.co.uk/library/gpen4.pdf>

Alternative Lifestyle Strategy - Standard Life Cautious Managed II Universal Lifestyle Profile (4CAU)

The below table shows the change in investments as a member approaches retirement for the Cautious Managed II Universal Lifestyle Profile (4CAU), which is available within the core self-select range.

Cautious Managed II Universal Lifestyle Profile (4CAU)



| Fund name | Fund code | Volatility rating | FMC | Additional expenses* | Total annual fund charge | Active/ Passive investment |
|--|-----------|-------------------|-------|----------------------|--------------------------|----------------------------|
| Standard Life Multi Asset Managed (20-60% Shares) Pension Fund | F8 | 4 | 1.00% | 0.02% | 1.02% | Active |
| Standard Life At Retirement (Multi Asset Universal) Pension Fund | F9 | 3 | 1.00% | 0.04% | 1.04% | Active |
| Standard Life Deposit and Treasury Pension Fund | G4 | 1 | 1.00% | 0.01% | 1.01% | Active |

The performance of the investment managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

Appendix 2: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

1. Financially Material Considerations

The Trustee is cognisant that Scheme 2 members have a long investment time horizon, and have considered the risks of ESG factors over the long-term. The Trustees believe that ESG issues, and particularly climate change issues have the potential to be more important for members who are further from retirement, as the financial materiality of such issues will have a greater impact over a longer timeframe.

The Trustees have elected to invest Scheme 2's assets through pooled funds. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: assess the investment managers' ESG integration credentials and capabilities, including stewardship, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustees will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of Scheme 2's investments.

The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact Scheme 2 and its investments;
- As part of ongoing monitoring of Scheme 2's investment managers, the Trustees will use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how Scheme 2's investment managers take account of ESG issues; and
- Through their investment consultant the Trustees will request that all of Scheme 2's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

2. Non-financially material considerations

The Trustees do not take account of non-financial matters (such as member ethical views) within the default investment strategy. However, they consider that it is important to ensure that a suitable range of funds are offered for members who wish to express a preference in their pension savings based on beliefs.

3. The exercise of voting rights

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through Scheme 2's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

4. Engagement activities

The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of Scheme 2 or as part of the pooled fund in which Scheme 2 holds units.

The Trustees also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of Scheme 2.

Should an investment manager be failing in these respects, this should be captured in Scheme 2's regular performance monitoring.

Scheme 2's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

Scheme 2's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.