

# *Statement of Investment Principles for the Airbus Group UK Pension Scheme September 2020*

## **1. Introduction**

### **1.1. What is the purpose of this Statement of Investment Principles?**

This Statement of Investment Principles (“SIP”) sets out the policy of Airbus UK Pension Trustee (the “Trustee”) on various matters governing decisions about the investments of the Airbus Group UK Pension Scheme (the “Scheme”). It relates to the investments backing final salary benefits provided under the Scheme. The investment policy for money purchase benefits (including Additional Voluntary Contributions) is set out in a separate SIP.

### **1.2. Who has had input to the SIP?**

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme’s investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments and the need for diversification, given the circumstances of the Scheme and the principles contained in this SIP.

The principal employer has been consulted on the SIP. The current investment managers of the Scheme and the Scheme Actuary were given the opportunity to comment on a draft of the SIP and their comments have been incorporated into this final version. The managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

### **1.3. What is the legal and statutory background to the SIP?**

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 (“the Act”), the Occupational Pension Schemes (Investment) Regulations 2005 (“the Regulations”) (as amended) and the Pensions Regulator’s guidance for defined benefit pension schemes (March 2017).

The Scheme’s assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme’s Trust Deed and Rules.

## **2. What are the Trustee’s overall investment objectives?**

The Trustee’s objectives are:

- to maintain a portfolio of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and the employers, the cost of current and future benefits which the Scheme provides as set out in the Trust Deed and Rules;
- to limit the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives; and

- to maintain full funding on the agreed Technical Provisions basis.

### 3. What risks does the Trustee consider and how are these measured and managed?

When deciding how to invest the Scheme's assets, the Trustee considers a wide range of risks, including, but not limited to, those set out in Appendix A. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

## 4. Summary of the Scheme's investment strategy

### 4.1. How was the investment strategy determined?

The Trustee, with the help of its advisers and in consultation with the principal employer, undertook a review of investment strategy in 2019 and 2020, considering the objectives described in Section 2 above.

### 4.2. What is the investment strategy?

The result of the review was that the Trustee agreed that the investment strategy of the Scheme should be based on the following strategic allocation:

Asset class	Strategic allocation (%)	Permitted range (%)
Equities	36.0	31.0 – 41.0
Infrastructure	12.0	7.0 – 17.0
Alternative credit	8.5	3.5 – 13.5
Property	10.0	5.0 – 15.0
Inflation opportunities	9.0	4.0 – 14.0
LDI / gilts	24.5	19.5 – 29.5
<b>Total</b>	<b>100.0</b>	

The table above represents the long-term strategic allocation for the Scheme. The Trustee will seek to maintain the overall asset allocation within the permitted ranges where possible.

The alternative credit allocation currently comprises one investment in a private credit fund made in 2015 and two commitments to opportunistic credit funds made in 2019, which will be drawn over time.

The allocation to property currently comprises both a core UK mandate and an allocation to long-lease property.

The allocation to "inflation opportunities" was determined by the initial investment in 2015 with income reinvested.

The allocation to LDI comprises of a bespoke pooled LDI portfolio made in 2020. The Scheme still has a small allocation to index-linked gilts which will be used to fund the two opportunistic credit mandates over time.

Further details of the investment managers and their mandates are set out in Appendix B.

#### 4.3. What did the Trustee consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustee considered:

- the Scheme's investment objectives and the return required to meet the objectives;
- a wide range of asset classes;
- the risks and rewards of a number of possible asset allocation options;
- the suitability of each asset class within each strategy, both across asset classes and within asset classes;
- the need for appropriate diversification between different asset classes;
- the views of the sponsoring employer;
- the strength of the covenant of the sponsoring employer;
- all other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Scheme; and
- their investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

#### 4.4. What assumptions were made about the returns on different asset classes?

The key financial assumptions underlying the model used to assist in determining the investment strategy were as follows, based on market conditions as at 31 March 2020:

Asset class or investment	Expected return above gilts* (% pa)
UK equities	5.5%
Overseas equities	5.5%
Emerging markets equities	6.5%
Infrastructure	4.6%
UK property	3.8%
Long-lease property	3.8%
Private credit	4.0%
Inflation opportunities	3.0%
Opportunistic credit	5.5%
Index-linked gilts / LDI	0.0%

\*As at 31 March 2020 the assumed expected return on gilts is 0.8% pa.

#### 5. Appointment of investment managers and custodians

##### 5.1. How many investment managers and custodians are there?

The Trustee has decided to appoint eight investment managers to manage the Scheme's assets. Details of the investment managers and their mandates are set out in Appendix B.

The Trustee has appointed a custodian for the Scheme's LDI investment held with BMO, who appoints State Street Bank Luxembourg S.C.A as the depository for the BMO LDI Fund. The remaining investments of the Scheme are all held in pooled funds for which separate custodians are not required.

##### 5.2. What formal agreements are there with the investment managers?

The Trustee has entered into an insurance policy with Managed Pension Funds Limited with respect to the Scheme's equity and index-linked gilt assets and a separate insurance policy with Mobius with respect to the Scheme's UK Property assets. The Trustee has entered into separate subscription agreements with respect to the Scheme's infrastructure, alternative credit, long-lease property, LDI and inflation opportunities assets. Each insurance policy or subscription agreement sets out details of the terms under which the Scheme's assets are managed.

The investment management responsibilities in respect of the Scheme's assets have been delegated as follows:

Equities and index-linked gilts	State Street Global Advisors ("State Street")
Infrastructure	IFM Infrastructure (UK) General Partner LLP ("IFM")
Alternative credit	M&G Investment Management Limited ("M&G")

	Alcentra Limited (“Alcentra”)
	Beach Point Capital Management (“BeachPoint”)
UK property	Kames Capital Management Limited (“Kames”)
Long-lease property	Aviva Investors Jersey Unit Trusts Management Limited (“Aviva”)
LDI	BMO Global Asset Management (“BMO”)
Inflation opportunities	M&G Investment Management Limited (“M&G”)

For the purposes of this SIP, State Street, Aviva, M&G, IFM, Alcentra, BMO, Kames and Beach Point are defined as the “investment managers”.

### 5.3. What do the investment managers do?

The investment managers’ primary role is the day-to-day investment management of the Scheme’s investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

### 5.4. What is the Trustee’s policy on the implementation of the investment arrangements?

The Trustee has limited influence over managers’ investment practices because the majority of the Scheme’s assets are held in pooled or bespoke pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee’s view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee’s responsibility to ensure that the managers’ investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund’s terms, the duration of a manager’s appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee’s policy is to evaluate each of its investment managers by reference to the manager’s individual performance as well the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager’s remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## **6. Other matters**

### **6.1. What is the Trustee's policy on the realisation of investments?**

The investment managers have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments. When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements.

### **6.2. What is the Trustee's policy on financially material considerations and non-financial matters?**

The Trustee has considered how social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

### **6.3. What is the Trustee's policy on voting and engagement?**

The Trustee believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

### **6.4. What are the responsibilities of the various parties in connection with the Scheme's investments?**

Appendix C contains brief details of the respective responsibilities of the Trustee, the investment adviser and the investment managers. Appendix C also contains a description of the basis of remuneration of the investment adviser and the investment managers.

#### **6.5. Does the Trustee make any investment selection decisions of its own?**

Before making any investment selection decision (eg a new investment manager) of its own, it is the Trustee's policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustee's policy to review its own investment selection decisions on a regular basis, based on written advice.

#### **7. Review**

The Trustee will, from time to time, review the appropriateness of this SIP with the help of its advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

This SIP replaces the previous SIP dated September 2019.

### The Trustee's policy towards risk, risk measurement and risk management

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Scheme in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- the Scheme's long-term funding target;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk, now and as the strategy evolves.

The Trustee considers that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

#### A.1. Strategic risk

This is the risk that the performance of the Scheme's assets and liabilities diverge in certain financial and economic conditions. This risk has been taken into account in the Trustee's investment strategy review, and will be monitored by the Trustee on a regular basis. The Trustee has taken advice from the Scheme Actuary and the investment adviser to ensure that the investment strategy is suitable for the Scheme.

The Trustee will review the Scheme's investment strategy at least every three years in light of the various risks faced by the Scheme.

#### A.2. Inadequate long-term returns

A key objective of the Trustee is that, over the long-term, the Scheme should have adequate resources to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Scheme to produce an adequate long-term return in excess of price and wage inflation.

#### A.3. Investment manager risk

This is the risk that the investment managers fail to meet their respective investment objectives. Prior to appointing each investment manager, the Trustee undertook an investment manager selection exercise.

The Trustee will receive quarterly reports from the investment managers and meet with their representatives on a regular basis to review investment performance. The Trustee may also request annual independent reports of



the investment performance figures. Through this process of regular reporting and annual review, the Trustee aims to ensure that the investment managers are performing competently.

#### **A.4. Risk from lack of diversification**

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustee's ability to meet its investment objectives.

The Trustee believes that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 4 and by the guidelines agreed with the investment managers.

#### **A.5. Counterparty risk**

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular BMO makes use within its LDI fund of derivative and gilt repos contracts and this fund is used by the Trustee to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

#### **A.6. Illiquidity/marketability risk**

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed appropriately via the measures described in Section 6.1.

#### **A.7. Collateral adequacy risk**

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee has in place a collateral waterfall consisting of corporate bonds with BMO whereby it will automatically use these funds for collateral where necessary.

#### **A.7. Credit risk**

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by having a diversified exposure to different credit issuers. The Scheme is also subject to credit risk through its bespoke pooled mandate with BMO. The Trustee manages this through instructing BMO to only invest in bonds classified as "investment grade".

#### A.8. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of this holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term.

The Trustee considers exposure to equity risk in the context of the Scheme's overall investment strategy and believes that the level of exposure to this risk is appropriate.

#### A.8. Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge currency exposure or implement separate currency hedging arrangements.

#### A.9. Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in index linked gilts via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

The Trustee considers interest rate, inflation and overseas currency risks to be generally unrewarded investment risks.

As a result, the Trustee aims to hedge around x% of the Scheme's exposure to interest rate risk and x% of the Scheme's exposure to inflation risk through a bespoke pooled LDI mandate with BMO.

The net effect will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.

#### A.10. Environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

#### A.11. Other risks

The Trustee recognises that there are other, non-investment, risks faced by the Scheme. Examples include:

- mortality risk (the risk that members live, on average, longer than expected); and
- sponsor risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated). The Trustee has taken into account the strength of the employer's covenant in setting the Scheme's investment strategy.

The Trustee also has in place processes to consider and monitor these non-investment risks on a regular basis.

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustee believes that it has addressed and is positioned to manage this general risk.

## Investment management arrangements

### B.1. State Street Global Advisors

The Trustee has selected State Street as the investment manager for the Scheme's equity assets. State Street's benchmark allocation is as follows:

Asset class	Strategic allocation %	Benchmark index
UK equities	50.0	FTSE All Share
Overseas equities (50% currency hedged)	41.6	FTSE World ex UK (Hedged 50%)
Emerging market equities	8.4	FTSE All-World All Emerging Markets Index
<b>Total</b>	<b>100.0</b>	

The Scheme still has a small allocation to index-linked gilts managed by State Street, which will be used to fund the two opportunistic credit mandates over time.

Unless instructed by the Trustee, State Street will not rebalance the Scheme's assets to the strategic allocation. State Street's objective is to:

- use net cash flows into the Scheme to move the actual allocation towards the target strategic benchmark allocation over time; and
- achieve benchmark index returns within the relevant asset classes.

State Street's fees are variable depending on the proportion of funds held. At the time of preparation of this SIP, State Street's fee for the equity and index-linked gilt mandates averaged 0.05%. This fee is a weighted average of: UK equities (0.04%), index-linked gilts (0.04%), international equities (0.05%) and emerging market equities (0.15%).

### B.2. Aviva Investors Jersey Unit Trusts Management Limited

The Trustee has selected Aviva as the investment manager for the Scheme's long-lease property assets. Aviva's benchmark allocation is as follows:

Asset class	Strategic allocation %	Benchmark index
Long-lease property	100	Equally weighted combination of FTSE 5-15 Years Gilt Index and FTSE 15+Years Gilt Index (weighted average)
<b>Total</b>	<b>100</b>	

Aviva's objective is to outperform its benchmark by 1.5% pa after fees.

Aviva's fees are 0.40% pa of the amount invested.

### **B.3. M&G Investment Management Limited**

The Trustee has selected M&G as the investment manager for the Scheme's illiquid credit and inflation opportunities assets, via pooled funds. Each holding is a fixed initial allocation, with income reinvested and no guaranteed liquidity. M&G does not rebalance between the illiquid credit and inflation opportunities funds.

M&G's objective for the illiquid credit assets is to achieve 3-month LIBOR + 5% pa net of fees. For the inflation opportunities assets its performance target is to achieve UK RPI + 2.5% pa over five year rolling periods.

M&G's fees for the illiquid credit mandate are variable depending on the underlying assets. At the time of preparation of this SIP, M&G's fees for the illiquid credit mandate averaged 0.59% pa.

M&G's fees for inflation opportunities mandate are variable depending on the underlying assets. At the time of preparation of this SIP, M&G's fees for the inflation opportunities mandate averaged 0.31% pa.

### **B.4. IFM Infrastructure (UK) General Partner LLP**

The Trustee has selected IFM as the investment manager for the Scheme's infrastructure allocation, via a pooled fund. The holding is a fixed initial allocation, with income reinvested and no guaranteed liquidity.

IFM's objective for the infrastructure assets is to achieve a return of 10% per annum (in local currency terms, after fees) over the long-term, by investing in assets with: strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives. IFM expects that returns will range between 8% and 12% pa depending on the stage of the market cycle.

The base management fee will be 0.77% pa on the Scheme's invested capital. IFM also charges a performance-related fee of 10% of the fund return when a hurdle rate of 8% pa (after management fees) of the Scheme's initial investment has been met – the performance fee will apply to all returns and not just returns in excess of 8% pa. IFM's catch up above the 8% hurdle is 33.3% until they have received their 10% performance fee. This is subject to a high water mark, which means that a performance fee will not be paid on a return which only offsets a previous loss. Furthermore, 50% of the performance fee is held back each year to offset any potential underperformance in the subsequent year.

### **B.5. Alcentra Limited**

The Trustee has selected Alcentra to manage an opportunistic credit mandate, via a closed ended pooled fund. The fund is expected to have a six year life from its final close (which is expected to be not later than September 2020), although this may be extended for up to two years with the consent of investors.

The fund targets an annualised internal rate of return ("IRR") of 15%, after the deduction of all fees and expenses and a net money multiple of 1.7x, with current yield of 4-6% per annum.

The base management fee is 1.0% pa on the Scheme's invested capital, after a discount for investing at the first close of the fund. A performance fee payable to Alcentra is calculated as 20% of any profit (net of all expenses

and the management charge), after investors have received a net IRR hurdle rate (or preferred return) of 8% pa. This performance fee operates as distributions are made as follows:

- investors receive 100% of any returns while the Fund's net IRR is less than 8% pa; then
- Alcentra receives 100% of any net returns greater than 8% until full catch up to a level of 20% is reached (ie Alcentra has received 20% of all net returns to that point which occurs at a net IRR of 10% pa); then
- Alcentra receives 20% of any returns thereafter, with the balance of 80% being paid to investors.

#### **B.6. Beach Point Capital Management**

The Trustee has selected Beach Point to manage an opportunistic credit mandate, via a closed ended pooled fund. The fund is expected to have a six year life from its final close (which is expected to be not later than August 2020), although this may be extended for up to two years with the consent of investors.

The fund targets approximately an annualised internal rate of return ("IRR") of at least 10%, after the deduction of all fees and expenses and a net money multiple of 1.5x, with current yield of 8-10% per annum.

The base management fee is 1.0% pa on the Scheme's invested capital. A performance fee payable to Beach Point is calculated as 20% of any profit (net of all expenses and the management charge), after investors have received a net IRR hurdle rate (or preferred return) of 8% pa. This performance fee operates as distributions are made as follows:

- investors receive 100% of any returns while the Fund's net IRR is less than 8% pa; then
- Beach Point receives 100% of any net returns greater than 8% until full catch up to a level of 20% is reached (ie Beach Point has received 20% of all net returns to that point which occurs at a net IRR of 10% pa); then
- Beach Point receives 20% of any returns thereafter, with the balance of 80% being paid to investors.

#### **B.7. Kames Capital Management Limited**

The Trustee has selected Kames as the investment manager for the Scheme's UK property allocation, via a pooled fund.

The objective of the Fund is to track the AREF/IPD All Balanced Property Funds Index return after all fees.

The annual management fee for the Fund is 0.15% pa.

### B.8. BMO Global Asset Management

The Trustee has selected BMO to manage an LDI mandate, via a bespoke pooled fund. The fund is made up of a Liability Hedging Sub-Portfolio and a Credit Sub-Portfolio.

The primary objective of the Fund, and of the liability hedging sub-portfolio, is to hedge a portion of the Scheme's liabilities against a change in interest rates and inflation expectations. The secondary objective, and of the Credit Sub-Portfolio, is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets.

The Fund's total fee comprises:

- a 0.03% pa LDI management fee (paid on exposure),
- a 0.08% pa collateral management fee (paid on assets held in collateral funds, ie the Credit Sub-Portfolio): and
- an estimated 0.045% pa of additional expenses paid on assets (eg for administration and custody across both LDI and collateral funds).

## C.1. Responsibilities and investment decision-making structure

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

### C.1.1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- the policy for rebalancing between asset classes;
- appointing, monitoring, reviewing and dismissing the investment managers, custodians, the Scheme Actuary and investment consultants;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- formulating a policy on voting rights;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the principal employer when reviewing the SIP.

### C.1.2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing their respective portfolios within the guidelines agreed with the Trustee;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with quarterly information concerning the management and performance of their respective portfolios;



- meeting with the Trustee on an annual (or more frequent) basis to review their investment performance and processes; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

### **C.1.3. Actuary and investment consultant**

In broad terms, the Scheme Actuary and investment consultant will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers and custodians, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations);
- advising how any changes in the investment environment could affect the interests of the Scheme;
- undertaking project work as requested, including reviews of asset allocation policy, research reviews of investment managers, and advising on the selection of new managers; and
- participating with the Trustee in reviews of this SIP.

### **C.2. Mandates given to advisers and investment managers**

The Trustee has in place signed agreements with the Scheme's advisers and investment managers. These provide details of the specific arrangements agreed by the Trustee with each party. Copies of these mandates are available for inspection upon request from the Pensions Manager.

### **C.3. Fee structures**

The Trustee recognises that the provision of investment management, dealing and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's investment advisers, under which charges are calculated on a "time-cost" basis.

The investment managers each receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers. See section 5 of the SIP.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

#### C.4. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

#### C.5. Working with the Scheme's employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the principal employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the principal employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively. The employer has provided the Trustee with a copy of the Airbus Responsibility and Sustainability Charter and it was noted that there was no strong steer in any particular area.