Defined Contribution Default Arrangement Statement of Investment Principles for the Airbus Group UK Pension Scheme February 2023

1. Introduction

This Default Arrangement Statement of Investment Principles ("DASIP") sets out the policy of Airbus UK Pension Trustee ("the Trustee") on various matters governing decisions about the investments of the default arrangements for the Defined Contribution ("DC") sections of the Airbus Group UK Pension Scheme ("the Scheme"), including Additional Voluntary Contributions ("AVCs").

This DASIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments for the default arrangements. The Trustee has consulted with the principal employer in producing this DASIP.

The Trustee will review this DASIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members, and at least once every three years. This DASIP replaces the previous DASIP dated November 2021.

2. Default Arrangement Objectives

The Trustee's primary objectives are to provide members with access to a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default options is to generate returns above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to less volatile investments as members near retirement. The defaults aim to have an asset allocation at the target retirement date that is appropriate and consistent with how most members are expected to take their retirement savings.

3. Investment strategy

The Trustee, with the input of its advisers and in consultation with the principal employer, began reviewing the default investment strategies in January 2020, finalising the review in September 2020, taking into account the objectives described in Section 2 above. The Trustee has also reviewed the climate risk integration within the funds as part of a fund review that began in September 2022 and made a decision to improve this in the Airbus Global Equity Fund (implemented in March 2023). The next investment strategy review is due to commence in late 2023.

Members who join the Airbus Group UK Retirement Plan (Schedules 4 and 5) who do not choose an investment option are automatically invested in the default option for the Airbus Group UK Retirement Plan, the Airbus Drawdown Lifestyle. The default option for the members of the Airbus Group UK Pension Scheme (Schedules 1, 2 and 3) who have a Retirement Account or AVCs is the 'Airbus Cash Lifestyle'. These default options are set up as "lifestyle strategies" (i.e. they automatically combine investments in proportions that vary according to the time to retirement age). Until 5 years before a member's target retirement age the lifestyles have the same asset mix profile. Then the default lifestyle strategies follow a different investment pathway to target the desired retirement objective; transfer to income drawdown, or taking a full lump sum cash withdrawal.

3.1 Retirement Accounts/AVCs

The Airbus Cash Lifestyle is the default option for members of Schedule 1 (Retirement Accounts) and Schedules 1, 2 and 3 (AVCs). It is set out in the table below:

Years to retirement	Airbus Pension Scheme Global Equity Fund %	L&G Diversified Fund %	L&G AAA-AA-A Corporate Bond Over 15 Year Index %	Airbus Pension Scheme Short Dated Credit Fund %	L&G Cash Fund %
16+	100.0	0.0	0.0	0.0	0.0
15	100.0	0.0	0.0	0.0	0.0
14	96.0	2.0	2.0	0.0	0.0
13	92.0	4.0	4.0	0.0	0.0
12	88.0	6.0	6.0	0.0	0.0
11	84.0	8.0	8.0	0.0	0.0
10	80.0	10.0	10.0	0.0	0.0
9	76.0	12.0	12.0	0.0	0.0
8	72.0	14.0	14.0	0.0	0.0
7	68.0	16.0	16.0	0.0	0.0
6	64.0	18.0	18.0	0.0	0.0
5	60.0	20.0	20.0	0.0	0.0
4	48.0	16.0	16.0	10.0	10.0
3	36.0	12.0	12.0	20.0	20.0
2	24.0	8.0	8.0	30.0	30.0
1	12.0	4.0	4.0	40.0	40.0
0	0.0	0.0	0.0	50.0	50.0

Members of Schedule 1 of the Scheme receive employer contributions to provide additional money purchase benefits, known as Retirement Accounts. The Scheme also provides a facility for members of Schedules 1, 2 and 3 to pay Additional Voluntary Contributions ("AVCs") into the Scheme in order to provide additional benefits on a money purchase basis.

The default options offered to these sections were designed to be in the best interests of the majority of the members based on the demographics of each Section of the Scheme's membership. The default option (the Airbus Cash Lifestyle) targets cash withdrawal at retirement, since the Trustee believes that most members will wish to take their benefits in this form. Therefore, in the initial growth phase the default option is invested to target a return above inflation, and then in the 15 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking cash withdrawal.

To help manage the volatility that members' assets experience in the growth phase of the default strategy, the Trustee has included an allocation to a "diversified growth fund", which over the long term is expected to generate returns lower than those of equities but with lower volatility than equities.

3.2 Schedules 4 and 5 (Airbus Group UK Retirement Plan)

The default lifestyle strategy (Airbus Drawdown Lifestyle) for those Schedule 4 and Schedule 5 members who do not wish to make their own choices is set out in the table below:

Years to retirement	Airbus Pension Scheme Global Equity Fund %	L&G Diversified Fund %	L&G AAA-AA-A Corporate Bond Over 15 Year Index %	Airbus Pension Scheme Short Dated Credit Fund %
16+	100.0	0.0	0.0	0.0
15	100.0	0.0	0.0	0.0
14	96.0	2.0	2.0	0.0
13	92.0	4.0	4.0	0.0
12	88.0	6.0	6.0	0.0
11	84.0	8.0	8.0	0.0
10	80.0	10.0	10.0	0.0
9	76.0	12.0	12.0	0.0
8	72.0	14.0	14.0	0.0
7	68.0	16.0	16.0	0.0
6	64.0	18.0	18.0	0.0
5	60.0	20.0	20.0	0.0
4	55.0	20.0	20.0	5.0
3	50.0	20.0	20.0	10.0
2	45.0	20.0	20.0	15.0
1	40.0	20.0	20.0	20.0
0	35.0	20.0	20.0	25.0

Schedules 4 and 5, known as the Airbus Group UK Retirement Plan, provides solely money purchase benefits.

The default options offered to these sections were designed to be in the best interests of the majority of the members based on the demographics of each section of the Scheme's membership. The default option targets drawdown at retirement, since the Trustee believes that most members will wish to take their benefits in this form. Therefore, in the initial growth phase the default option is invested to target a return above inflation, and then in the 15 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking drawdown.

The Trustee will review the strategy used for the default option and the other investment options at least every three years and as soon as practicable after any significant change in investment policy, or the demographic profile of relevant members. The Trustee will also monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4. Considerations made in determining the default investment arrangements

When deciding how to invest the Scheme's assets, the Trustee considers a number of risks as set out in Appendix 2 of the main DC SIP. 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.

In determining the default investment arrangements the Trustee also took into account:

- the overall best interests of members and beneficiaries;
- the profile of the membership and what this was likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategies to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification between and, where appropriate, within the other investment options offered to members.

The Trustee also considers any other factors which it believes to be financially material over the applicable time horizons to the accumulation of the DC Sections' benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

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;
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to identify, and therefore passive management is usually better value;
- 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;
- ESG factors should be considered when making investment decisions, as managers may be able to improve risk-adjusted returns by doing this;
- climate change is a financially material systemic issue that presents risks and opportunities for the DC Section over the short, medium and long term;
- aligning the Scheme's assets with net zero greenhouse gas emissions by 2050 where practicable is expected to help reduce the risks to the Scheme from climate change;
- voting and engagement are important and can create long term value which is in the best interest of Scheme members and therefore we encourage managers to improve their voting and engagement practices.
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5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers, their objectives, investment guidelines, and custody arrangements are set out in Appendix 3 of the main DC SIP.

The Trustee has entered into a contract with a platform provider, who makes available the default arrangements to members. There is no direct relationship between the Scheme and the underlying investment managers of the DC investment funds.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate within the parameters of the fund they are managing.

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. 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 as 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. Since the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers, the Trustee does not explicitly monitor portfolio turnover. 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. 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. The Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors (including but not limited to climate change) should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) within the parameters of the mandates they are set. 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.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. The Trustee recognises that some members may wish for non-financial matters to be taken into account in their investments and therefore has made available the L&G Ethical Global Equity Fund and the L&G Fossil Fuel Free Climate Equity Index Fund as investment options to members.

8. Stewardship

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, 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, taking in to account the long-term financial interests of the beneficiaries. The Trustee expects the managers to communicate their policies on stewardship from time to time, and provide the Trustee with reporting on the results of their engagement and voting activities regularly and at least once a year.

The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee reviews the themes regularly and update them if appropriate. The Trustee communicates these stewardship priorities to its managers and also confirm its more general expectations in relation to ESG factors, voting and engagement.

If the Trustee's monitoring identifies areas of concern, it will engage with the relevant manager to encourage improvements. The Trustee will set objectives and target dates for each formal engagement, review progress, and have an escalation process which it will follow if progress is unsatisfactory. 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.

9. Further information

More information on the full options available to members with DC funds is available in the DC SIP.