

The Co-operative Pension Scheme (Pace) – Co-op Section (“the Section”)

Statement of Investment Principles – December 2020

1. *Introduction*

Pace Trustees Limited (“the Trustee”) has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the Pensions and Lifetime Savings Association. The Statement also seeks to take into account the Investment Governance Group (“IGG”) principles for defined benefit and defined contribution schemes.

Since August 2018, the Co-operative Pension Scheme (Pace)’s assets and liabilities have been sub-divided into two sections, relating to the Co-operative Group Limited (“the Co-op”) and the Co-operative Bank (“the Bank”) respectively. Investment policy is determined separately for each section.

The remainder of this Statement refers primarily to the section of Pace of which the sponsoring employer is the Co-op, namely the Co-op Section (“the Section”). The Co-op has been consulted in preparing this Statement and will be further consulted regarding any proposed changes to the Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Statement is intended to affirm the investment principles that govern decisions about the Section’s investments.

The Section provides two types of benefit; a defined benefit section (the “Defined Benefit” section) and a defined contribution arrangement (the “Defined Contribution” section). These are covered separately in Sections 2 and 3 respectively. The Defined Benefit section is closed to new entrants.

The investment responsibilities of the Trustee are governed by the Scheme Rules (which are available on the Pace website) and relevant legislation.

The Trustee has established a Manager Monitoring and Implementation Committee (“MMIC”) (in conjunction with the other Co-operative pension schemes) to focus on and review the Section’s investment managers. The MMIC is an advisory body that may make recommendations to the Trustee regarding investment related matters.

2. Defined Benefit section

2.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives, covering both risk tolerance and target return
- Construct a portfolio of investments that is expected to meet the investment objectives

The Trustee is committed to achieving these investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. Investing responsibly is an important consideration for the Trustee and is covered in more detail in Section 8.

In considering the appropriate investments for the Section, the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice. Where matters described in this Statement may affect the Section's funding policy, input has also been obtained from the Scheme Actuary. The advice received, and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 Investment Objectives

The Trustee has a duty to invest the defined benefit assets of the Section in a manner which, over the life of the Defined Benefit section, should enable the Trustee to provide the promised benefits under the rules.

With regards to the Section, the Trustee has agreed to implement an investment strategy that targets a total Section (i.e. including buy-in policies) expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Section's liabilities. This investment return target was chosen taking into account the associated level of risk. The Trustee is aware (and comfortable) that the expected return of the investment strategy for the Section may vary from gilts + 0.8% (net of fees) from time to time as strategic changes are implemented and/or with changing market conditions.

The primary goal of the Trustee is to achieve a fully funded position on a low risk basis, whilst meeting statutory requirements on a Technical Provisions funding basis.

If funding improves as a result of better than expected investment returns, the Trustee, in consultation with the Co-op, expects to consider whether to use the opportunity to reduce risk, or to continue to maintain the level of risk with a view to improving the funding level position further.

2.3 Risk Management and Measurement

The Trustee recognises a number of risks involved in the investment of the defined benefit assets of the Section. The Trustee will continue to monitor and aim to manage the key risks, principally: -

- **Solvency risk and mismatching risk** – addressed through the asset allocation strategy, through triennial actuarial valuations and the funding objectives. The buy-in policies held by the Section are expected to match the liabilities of the pensioner members insured in 2020.
- **Manager risk** – addressed through the diversification of the Section's assets across a range of managers with different styles and through the ongoing monitoring of the managers.
- **Liquidity risk** – the monthly benefit and expenses outgo is monitored to ensure that sufficient cash balances are available. Investment in illiquid assets is kept to an appropriate level, and a prudent approach is taken to maintaining suitable levels of collateral to support derivative programmes.

While the buy-in policies held by the Section can only be liquidated by the Trustee in specific and limited pre-defined circumstances, they are designed to match the liquidity requirements of the relevant liabilities as exactly as possible, and so the requirement to hold liquid assets to meet these liabilities as they are due falls away.

- **Counterparty risk** – where the Section enters into derivative transactions, either directly or via pooled funds, these will be collateralised as appropriate. Where possible, the Section will engage a range of counterparties (with counterparty selection for specific trades delegated to investment managers), with limits placed on exposure to any individual counterparty, to reduce the impact of a potential counterparty default.
- **Custody risk** – addressed by monitoring the custodian's activities and the creditworthiness of the custodian bank, and discussing the performance of the custodian with the investment managers when appropriate.
- **Sponsor risk** – addressed by regular assessments of the ability and willingness of the sponsor to support the Section and to make good any deficit.
- **Leverage risk** – addressed by regular review of the size, amount and nature of any leveraged investments made by the Section's investment managers and monitoring of potential collateral requirements (versus the Trustee's agreed collateral stress test policy).
- **Currency risk** – addressed through hedging a portion of non-Sterling currency exposure as appropriate and where this risk is judged to be material.
- **Credit risk** – addressed through holding a diverse range of credit investments across a variety of issuers and sectors, with exposure limits in place, through having in place investment managers who assess the

creditworthiness of the debt instruments in which the Section invests and through appropriate limits on credit quality. For the buy-in policies, the credit risk associated with the respective insurers was considered at the outset and is monitored on a regular basis.

- **Interest rate and inflation hedging related risks** – the buy-in policies held by the Section are expected to provide cashflows so as to match the liabilities of the pensioner members insured in 2020, thereby removing interest rate and inflation risk to the Section relating to these members. Management of the majority of the risks of the remaining uninsured liabilities is delegated to the Section’s liability hedging manager. However, the Trustee also regularly reviews a range of liability hedging risks within quarterly reporting discussions (and other analysis from time to time) with professional advisors.
- **Longevity risk** – the impact of potential increases in life expectancy of the Section’s pensioners was reduced with the purchase of the buy-in annuity policies in 2020.
- **Environmental, social and governance risk (including climate change)** – addressed through the incorporation of Pace’s Responsible Investment policy when implementing the Section’s investment strategy, and the annual review of this policy. This includes engagement with investment managers, the exclusion of specific investments from the Section’s portfolios (where appropriate and viable), and the publication of an annual report on Pace’s compliance with this policy.

Other risks are addressed through individual investment manager and custodian agreements.

2.4. Portfolio Construction

As of early 2020, the Section’s assets are split into two parts, “The Buy-in Portfolio” and “The Main Portfolio”. Both are monitored on a standalone basis.

The Buy-in Portfolio

The Trustee has purchased three insurance policies with two different insurers, who have agreed to pay the Section an amount equal to the pensions in payment for those members covered under the policies, although the pension liabilities remain a liability of the Scheme. The respective insurance contracts are held as assets of the Section.

The Main Portfolio

It is the Trustee’s policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques, including but not limited to:

- Illiquid Credit
- Alternative Inflation-linked Assets

- Asset-backed Securities
- Investment-grade Credit
- Liability Driven Investment (“LDI”)

The Trustee has adopted the following control framework in structuring the Section’s investments:

- There is a role for active management in some asset classes where it can add value or reduce risk, while in other asset classes other approaches are appropriate, including “buy and maintain” (for investment grade credit specifically); this includes:
 - To diversify risk
 - To invest in markets deemed efficient where the scope for active management to add value is limited; and
 - As a temporary home pending investment with an active manager
- To help diversify manager specific risk, multiple manager appointments are preferred where practical (e.g. investment grade credit and illiquid credit).
- At the Main Portfolio level and within individual manager appointments investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer.
- The Trustee has a policy to consider the place for passive currency hedging for the Section’s overseas assets. It has agreed, in conjunction with its Investment Adviser, to target a 100% hedge of non-Sterling currency exposure within the credit portfolio.
- Investment in illiquid investments, such as private equity, property or illiquid credit assets, may be held in limited quantities. The proportion of such investments will be monitored at the individual manager and at the total Section and / or Main Portfolio level.
- Investment in derivatives is permitted as agreed on a manager by manager basis as long as they contribute to a reduction in risk or facilitate efficient portfolio management.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Main Portfolio are predominantly invested on regulated markets.
- No investment in securities issued by the Co-op, Participating Employers or affiliated companies will be made directly (i.e. this excludes any such securities held within a pooled fund in which the Section invests and any securities provided by the Participating Employers which may be held in escrow as contingent assets).
- No investment by an appointed investment manager in the securities issued by the relevant manager’s company, or any affiliated companies, will be made.

- For the Section's segregated investment grade credit mandates, the Trustee has provided the managers with a list of specific investments to exclude from further purchases, where these investments have been identified as conflicting with the key areas of Pace's Responsible Investment policy. In addition, all managers, with the exception of the LDI manager, are expected to integrate ESG factors into the portfolio construction process and report on their efforts.

2.5 Investment Strategy

The Trustee has invested a proportion of the Section's assets in "The Buy-in Portfolio" in order to match the liabilities of those pensioner members insured under the respective insurance contracts implemented in January, February and May 2020. These contracts accounted for c25% of the Section's assets at the date of the buy-in transactions.

Within the Main Portfolio, the Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the remaining uninsured liabilities. Given the on-going commitment of the Co-op to the Section, a degree of mismatching risk can be accepted on the basis that it is acceptable to the Co-op and the Trustee is satisfied that the Co-op's covenant strength is adequate to support the mismatching risk.

The Trustee has decided to set an investment strategy which is expected, over the medium term, to produce investment returns to meet the investment objectives as set out in Section 2.2, while limiting the risk inherent in the mismatch between assets and liabilities to a level acceptable to the Trustee and to the Co-op.

The Trustee has considered the effect of the volatility of assets in relation to the liabilities. In setting the investment policy, the Trustee has considered the influence that this will have on the Section's Funding Objective. It will, however, continue to monitor the position in the light of future developments.

The Investment Adviser provides advice on an appropriate investment strategy with input from the Scheme Actuary and considering the views of the Co-op on the acceptable degree of mismatch. The Trustee has also sought advice from a specialist adviser on buy-in contracts and liaised with the Investment Adviser and Scheme Actuary when implementing the buy-in policies.

The current target investment strategy asset allocation, as agreed by the Trustee, is shown in the table below, with the approximate allocation of the Buy-in Portfolio indicated at the point of implementation (noting there is no rebalancing between the buy in policies, or the two Portfolios).

Asset Class	Target Allocation (%)	Approximate % of Total Section Assets as at 30 April 2020 (%)
Buy-in Portfolio	100.0	25
Buy-in Insurance Policy (A)	42.5	
Buy-in Insurance Policy (B)	42.5	
Buy-in Insurance Policy (C)	15.0	
Total	100.0	
Main Portfolio		75
Illiquid credit	12.0	
Alternative inflation-linked assets	4.5	
Asset-backed securities	4.0	
Investment grade credit	35.0	
Liability Driven Investment	44.5	
Total	100.0	

The Section may continue to have small legacy holdings not listed in the above table over the short to medium term (for example in property or alternatives) but these are in the process of being redeemed. The redemption process may take several years in some cases (for example illiquid private equity/debt holdings). These legacy holdings were less than 1.5% of total Section assets at the time of writing but will continue to be monitored on an ongoing basis. In addition, market movements may mean that the actual allocation may deviate from that shown in the table above from time to time.

The Trustee has agreed to target a hedge of 100% of the interest rate and inflation exposure of the Section's total liabilities as measured on a "gilts plus 0.25% p.a." basis.

The overall asset allocation will be monitored on a quarterly basis via the strategic monitoring reports provided by the investment adviser. The Trustee's investment advisor will propose further rebalancing if deemed appropriate (particularly if the portfolio's long term expected return moves sufficiently far away from the required level).

2.6 Expected Return

Over the long term, the Trustee's expectation is for the total section assets (including the Buy-in assets) to achieve a rate of return which is at least 0.8%p.a. (net of fees) in excess of gilts and for the Main Portfolio to achieve a rate of return which is at least 0.9%p.a. (net of fees) in excess of gilts, to support the approach used to value the Section's liabilities. (The actual expected excess return on the assets will vary with market movements and the

underlying asset class assumptions, but the Trustee aims to maintain it broadly in line with the specified target over time.)

Returns over shorter periods are assessed against benchmarks set by the Trustee.

3 Defined Contribution Section

3.1 Process for Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Consider the risks faced by members of the Defined Contribution Section
- Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life. One of the self-select options available for members is a growth fund that uses ethical considerations to screen potential investments; in addition, the Trustee considers the appointed investment manager's environmental, social and corporate governance processes when setting the default strategy for the Defined Contribution Section.

In considering the appropriate investments for the Defined Contribution Section the Trustee has obtained and considered the written advice of the Investment Adviser, whom the Trustee believes to be suitably qualified to provide such advice.

3.2 Investment Objective

The Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members, the Co-op and Participating Employers, will provide a fund at retirement with which to provide an income in retirement.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have differing attitudes to risk and retirement objectives. The Trustee believes that members should be provided with a range of options to tailor their pension investments to their individual circumstances.

The default arrangement aims to grow member contributions ahead of inflation over the members working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. During the early years, it will be invested in the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund with the objective of achieving growth over the long term. As members approach their selected retirement age, the default arrangement automatically switches holdings fully into the Pace Growth (Mixed) Fund, and over the 10 years prior to a member's selected retirement date switches into the Pace Cash Fund to provide capital protection.

3.3 Risk Management and Measurement

The Trustee recognises specific investment risks which can be managed by the range of investment options provided to members. These are:

- **Shortfall or 'opportunity cost' risk** - the risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
- **Capital risk** - the risk of a fall in the value of the members' funds.
- **Custody risk** - the safe custody of the defined contribution assets is delegated to professional custodians appointed by the Fund provider.
- **Purchasing power risk** - the purchasing power risk to members is that the investment return over members' working lives does not keep pace with inflation and does not therefore secure an adequate retirement income. This risk is mitigated through the design of the Target Funds, which aim to provide sufficient investment returns over a member's working life. In addition, the Trustee has made available three Growth Funds, should members wish to select their own investment options.
- **Conversion risk** - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the retirement income and cash lump sum secured. This risk is mitigated through the design of the three Target Funds, which aim to protect members from relative market movements in the years just prior to retirement. In addition, the Trustee has made available two Pre-retirement Funds and a Cash Fund, should members wish to select their own investment options.
- **Manager risk** - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed. This risk is mitigated through the regular review of investment performance by the Trustee.
- **Lack of diversification risk** – the Trustee recognises the risks that may arise from a lack of diversification within the investments. The Trustee therefore invests in pooled fund vehicles, to ensure an adequately diversified portfolio for each fund option.

In formulating the investment options to make available to members the Trustee has considered the willingness and ability of Pace's defined contribution membership to take investment risk. As part of this, the Trustee considered the capacity of members to respond to an adverse event.

The funds offered through the defined contribution section of Pace have been chosen, in part, to help members mitigate these risks.

3.4 Investment Strategy

The Defined Contribution Section of Pace offers three lifestyle strategies plus a range of self-select funds to members with growth or protection objectives.

The lifestyle strategies have been designed to target the three retirement objectives; lump sum, secure income and flexible income. All of the lifestyles invest in equities, bonds and alternative growth assets during the 'growth phase'. The lump sum lifestyle strategy is designed for members targeting a lump sum at retirement and has a high exposure to cash at retirement. The flexible income targeting lifestyle de-risks to a much smaller allocation to cash

and the secure income targeting lifestyle de-risks into bonds and cash, as members approach retirement.

The lump sum lifestyle strategy acts as the “default” investment option for those members who do not wish to select their own funds.

The Trustee believes that the investment strategy options are currently appropriate for meeting the Pace objective set out in 3.2 and controlling the risks identified in 3.3 for the membership as a whole.

3.5 *Expected Return*

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustee believes that the range of funds offered should provide a range of returns suitable for the membership as a whole.

4. *Day-to-Day Management of the Assets*

In compliance with the Financial Services and Markets Act 2000, day to day management of the assets is delegated to professional Investment Managers (in relation to the Main Portfolio for the Defined Benefit section assets and the Defined Contribution section assets) who are all regulated by the Financial Conduct Authority (“FCA”) or the relevant authority in the domicile country. The Investment Managers have full discretion to buy and sell investments on behalf of the Section, subject to agreed constraints and applicable legislation.

For the Defined Benefit section (in relation to the Main Portfolio), the Investment Managers have been selected for their expertise in different specialisations and each manages investments for the Defined Benefit section to a specific mandate which includes performance objectives, risk parameters and timescales over which their performance will be measured.

For the Defined Contribution section, the Trustee has selected a number of suitable pooled funds for members to invest in.

5. *Investment Manager Appointment, Engagement and Monitoring*

5.1 *Aligning Manager Appointments with Investment Strategy*

When engaging with investment managers to implement the Trustee’s investment strategy, the Trustee believes that as appropriate and to the extent applicable, its appointed investment managers should be incentivised to align their strategy and decisions with the objectives of the Section.

Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.

If the investment objective for a particular manager’s fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.

Defined Benefit Section

The Trustee has agreed criteria in the Investment Manager Agreements (“IMAs”) so that the assets are managed in line with the Trustee’s specific investment requirements.

With regard to the Liability Driven Investments portfolio, the manager has been appointed to manage the assets in line with a Section-specific benchmark based on the liability profile, with restrictions set out in the IMA in order to manage portfolio-specific risks.

The Trustee utilises the Investment Adviser’s forward-looking assessment of a manager’s ability to outperform over a full market cycle. This view will be based on the Investment Adviser’s assessment of the manager’s idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Section invests in. The Investment Adviser’s manager research ratings assist with due diligence and questioning managers during presentations to the Trustee (or the MMIC) and are used in decisions around selection, retention and realisation of manager appointments.

5.2 Manager Appointments and Performance

The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods. The Trustee reviews the absolute performance and where relevant, will also consider relative performance against a suitable index used as the benchmark and/or against the manager’s stated target performance (over the relevant time period) on a net of fees basis. In terms of reporting, the Trustee’s focus is primarily on long term performance, but short-term performance is also reviewed.

The Trustee may review a manager’s appointment if:

- There are sustained periods of underperformance;
- There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager;
- There is a significant change to the Investment Adviser’s rating of the manager; or
- There is a change to the Trustee’s overall strategy that no longer requires exposure to that asset class or manager.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager or in some circumstances ask the manager to review the Annual Management Charge.

5.3 *Portfolio Turnover Costs*

Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

Defined Benefit Section

The Trustee has engaged a third party to collect cost information (under the Cost Transparency Initiative). Once set up, the aim is for them to analyse data from the Main Portfolio's investment managers to determine the underlying costs involved with its investments. The Trustee aims to use this information to prompt discussion with its investment managers on costs and in order to compare its investments with other managers in the same asset class to ensure consistency.

The Trustee also receives portfolio turnover information for some of its mandates as part of the quarterly reporting provided by its Investment Adviser.

The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.

5.4 *Manager Turnover*

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

6. *Realisation of Investments*

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.

For the Defined Benefit section, the Trustee monitors the allocation between the appointed managers and between asset classes, and rebalances the portfolio as appropriate. This includes consideration of the split within the broad asset classes shown above and the selection, monitoring and termination of the underlying investment managers.

7. *Additional Assets*

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members and various immediate annuity

contracts. The Trustee reviews the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability.

8. *Socially Responsible Investment and Corporate Governance*

The Trustee has a Responsible Investment ("RI") Policy which it reviews at least annually. This document details the policy for considering Environmental, Social and Governance ("ESG") factors, including climate change, in the strategic investment process and investment decision-making process, assessing Pace's investment managers' performance on ESG issues, engagement with investee companies, consideration of and participation in third party ESG initiatives and public disclosure of Pace's ESG policy in practice.

In accordance with its fiduciary responsibilities, the Trustee takes account of financially material factors when making investment decisions, i.e. those factors which are expected to have an impact on investment returns and risk over the Section's anticipated lifetime (including the long-term sustainability of investee companies' performance – in particular the impact of climate change).

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment.

The Trustee will apply these considerations in setting Pace's RI Policy, with the Trustee assessing members' likely concerns (as far as this is practically possible) through engagement with members and through engagement with the Co-op when developing the Policy.

At the time of writing, the RI policy reflects three broad RI issues which the Trustee believes represent particular risk to the Scheme and which the Trustee believes can be addressed. As the Policy is kept under regular review, the issues identified may change over time. These issues are:

- Protection of the environment.
- Labour conditions and equal pay.
- Corporate governance.

The Trustee seeks to address these issues through Pace's engagement with its investment managers and the application of specific exclusion lists for some mandates held by the Defined Benefit section to restrict investment in companies identified as conflicting with the Trustee's aims under these issues.

The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Pace members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes. The Trustee may, from time to time, raise specific ESG issues with investment managers

and seek a response. In addition, the Trustee reserves the right to use more direct engagement with investee companies, including those issuing debt. In such situations this may include working with investment managers and other institutions to engage with companies or contacting companies directly.

Investment managers are asked to report to the Manager Monitoring and Implementation Committee on the issue of responsible investment. In addition, the Trustee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship. This is documented at least annually.

As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of the Investment Adviser's own system of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with Pace's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.

While the Trustee will meet with certain managers from time to time (including the LDI manager which the Trustee aims to meet at least annually), the MMIC is typically responsible for meeting with the Section's investment managers. At any manager presentation, the MMIC on behalf of the Trustee will ask the investment managers to provide further detail about ESG considerations such as voting history, engagement activity and AAF reports.

In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.

Within the Defined Contribution section, the Trustee offers an ethical equity fund, the Pace Growth (Ethical Shares) fund, and offers funds with ESG tilts in the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund (both of which form part of the default strategy). The Trustee also considers ESG factors as part of the Scheme's process for selecting and retaining investment options.

As a responsible investor, the Trustee exercises rights, including any voting rights attaching to Pace's investments, in the best interests of Pace's members. Specifically, the Trustee has instructed the investment managers to exercise voting rights accordingly, where applicable and wherever it is practicable to do so, and to report to the Trustee.

9. Professional Investment Advice

The Trustee has appointed Mercer Limited to provide advice on all aspects of investment relating to the defined benefit section of the Section (with the exception of investment related advice on the suitability of the buy-in policies, which was provided by a 3rd party professional adviser). The Trustee has appointed Lane Clark & Peacock LLP to provide advice in relation to the principles and fund choice set out in this document relating to the defined contribution section.

10. *Review of this Statement*

The Trustee will review this Statement annually and without delay after any significant change in investment policy or demographic profile of the membership. The Investment Advisers will provide the advice needed to allow the Trustee to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustee and recorded in the minutes of a Trustee meeting.

Approved by Pace Trustees Limited on 16 December 2020

Appendix: Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
<ul style="list-style-type: none"> ▪ Overall responsibility for the Section's investments. ▪ Make day-to-day decisions relevant to the operation of the Defined Benefit section's investment strategy. ▪ Appoint and monitor the Investment Adviser. ▪ Review of the Responsible Investment Policy. ▪ Define the terms of appointment of the Defined Contribution Committee. ▪ Appoint the members of Defined Contribution Committee. 	The Trustee
<ul style="list-style-type: none"> ▪ Make day-to-day decisions relevant to the operation of the Defined Contribution section's investment strategy. 	The Defined Contribution Committee
<ul style="list-style-type: none"> ▪ Monitor appointed Investment Managers and other service providers 	The Manager Monitoring and Implementation Committee / Defined Contribution Committee as applicable
<ul style="list-style-type: none"> ▪ Perform asset liability modelling exercises, as required. ▪ Advise on the strategic framework. ▪ Advise on the selection of the Investment Managers. ▪ Monitor the Investment Managers, providing both qualitative and quantitative input to the Trustee and Manager Monitoring and Implementation Committee as appropriate. ▪ Advise on the implementation of mandates. ▪ Advise on the Statement of Investment Principles. 	The respective Investment Advisers to the Section (both defined contribution and defined benefit)
<ul style="list-style-type: none"> ▪ Operate within the conditions set down by the Investment Management Agreement (or equivalent documentation) ▪ Select individual investments with regard to their suitability and diversification. ▪ Supply the Trustee with sufficient information to allow the review of activity. 	The Investment Managers and insurance providers