

Statement of Investment Principles – British Steel Pension Scheme

A Introduction

1. This document is the Statement of Investment Principles ('SIP') made by the Trustee of the British Steel Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it) ('the Pensions Act'). Before adopting this SIP, the Trustee formally consulted with the Sponsoring Employer.
2. The Trustee will review this SIP at least every three years, or without delay following any significant change in investment strategy.
3. The Scheme operates for the exclusive purpose of providing retirement benefits to eligible participants and beneficiaries ("members").
4. The powers of the Trustee to determine the manner in which assets of the Scheme are to be invested from time to time are set out in the trust deed governing the Scheme. The policies in this SIP are intended to be consistent with, but are subject to, the proper exercise of those powers.
5. The Trustee receives written advice that the Scheme's investments are satisfactory for the purpose of satisfying Section 36 of the Pensions Act either from its Investment Consultant or the Independent Property Advisor, as appropriate.

B Trustee objectives

6. The Trustee's objective is to manage the Scheme so that members receive their benefits as and when they fall due, without needing contributions from the Employer. The assets of the Scheme, which collectively are referred to as the 'Fund', are held by the Trustee for this purpose.
7. The long-term investment objective of the Fund is to provide a high level of security of pension benefits in a cost-effective manner, taking into account the risks to which the Scheme is exposed, as set out in section E. Ultimately, the Trustee expects that this objective will be satisfied by securing the Scheme's liabilities via the insurance market.
8. To this end, the Trustee, in consultation with the Employer has appointed Legal and General Assurance Society (the "Insurance Provider") to provide several buy-in policies that cover the pension benefits payable under the Scheme. All of the Scheme's liabilities have now been secured under buy-in contracts with the Insurance Provider and in due course could be converted to a buy-out. At this point, the responsibility for meeting members' benefits will have been transferred from the Trustee to the Insurance Provider.

C Investment strategy

9. Almost all the Scheme's assets are invested via buy-in policies managed by the Insurance Provider. In addition, the Scheme holds residual investments in cash like assets, short-dated government bonds, property, and private equity. These residual assets represent the remaining assets following the payment of the premium to the Insurance Provider for securing the Scheme's liabilities. The private equity and property assets are expected to be liquidated as soon as practical.
10. The Trustee retains responsibility for the management of the residual assets and for the realisation of the illiquid assets. The over-riding principle in managing the residual assets is to acquire low-risk and liquid assets that in aggregate will cover the Scheme's future expenses and any additional benefit payments. The Trustee recognises that this investment approach will be associated with a lower level of expected return than could have otherwise been expected through investing in higher risk and more illiquid assets. In seeking to achieve this, there are several factors that govern the investment strategy for the residual assets:
 - The projected amounts and the timing of benefits and expense payments that are expected to be payable over the remaining lifetime of the Scheme;
 - The expected lifetime of the Scheme (i.e., until the wind-up is achieved);
 - The desire to diversify investment risk exposures and to manage investments efficiently.
11. The Trustee has received advice from its Investment Consultant to determine an appropriate investment strategy for the Scheme's residual assets.
12. The Trustee will not borrow money for any purpose, except by way of an overdraft with its custodian or a duly appointed sub-custodian for the purposes of meeting settlement or redemption mismatches on a short-term basis.

D Fund Managers

13. The Trustee will set general investment policy and will delegate the responsibility for day-to-day investment decisions as required by law.
14. The Trustee will diversify its holdings across a liquidity fund and short dated government bonds, managed by LGIM, the Scheme's Investment Manager. LGIM's appointment is ongoing and does not have an expected or minimum duration. The Trustee has also entered a series of insurance policies with Legal and General Assurance Society (LGAS).
15. The mandates set out in the IMAs of the appointed Investment Manager ensure that the decisions taken by the Investment Manager are consistent with the Trustee's longer-term objectives and the policies set out in this Statement. They also encourage the active ownership of the Scheme's assets by the Investment Manager. The LGAS insurance policies are, by design, aligned with the Trustee's objective of delivering the Scheme's liabilities.
16. The Trustee's expectation is that the Fund undertakes all investments with a view to them providing an adequate match for the Scheme's future cashflow requirements (i.e., benefit

payments to members and expenses associated with winding up the Scheme). The investment objectives and mandates that have been given to the Investment Manager are consistent with the expected lifetime of the Scheme (i.e., the period over which the Scheme is expected to be wound up).

17. The Trustee will maintain processes to ensure that the performance of the Investment Manager is assessed on a regular basis against measurable objectives consistent with the achievement of the Fund's objectives, and an acceptable level of risk. The nature of the Investment Manager's strategy means that the Trustee does not consider the monitoring of portfolio turnover to be relevant to its objectives.
18. The Investment Manager's remuneration is based on an ad valorem fee covering the total assets under management. The Trustee has received advice from its Investment Consultant confirming the appropriateness of the fee charged.
19. The Trustee recognises an investment's financial success is influenced by a wide range of factors including environmental, social and governance (ESG) issues (including climate change) and stewardship. The extent to which ESG issues (including climate change) may have an impact on the portfolio will be considered by the Investment Manager when making day-to-day decisions about the investment of the Fund.
20. The Trustee recognises that effective stewardship (including the exercise of voting rights and engagement) can protect and enhance the value of investments. The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the Investment Manager and to encourage them to exercise those rights. Rights attached to investments, including voting rights, will be exercised for the benefit of the Fund. Given the Fund's investment strategy, the exposure to investments which have such rights are expected to be very limited.
21. With regards to engagement activity, the Trustee recognises that there are a wide range of issues which can influence the operation and performance of individual investments. The Trustee's expectation is that the Investment Manager will engage on climate risk on the Trustee's behalf. In addition, the Investment Manager will determine the other issues on which it will engage on a case by case basis, based on its assessment of what will have the greatest impact on maximising the sustainable return from the investments.
22. At present, the Trustee does not explicitly take account of non-financial matters in Fund design or strategy but may consider reflecting specific non-financial considerations in the future.

E Risks and regulation

23. The Trustee maintains a detailed risk register. A summary of the key investment risks and how they are measured and managed is set out below:
 - Credit risk
 - is measured by monitoring defaults of and the credit rating of assets held in the portfolio.

- is managed through diversification across different counterparties, a reserve in any cash flow projections undertaken, the Investment Manager's credit screening processes, and limitations on the proportions of assets that can be held by credit rating.
- Manager risk:
 - is measured by the potential deviation of the return on the Fund's assets relative to expectations, as a result of the Investment Manager's implementation of the investment strategy.
- Liquidity risk:
 - is measured by the level of cashflow required by the Fund over a specified period.
 - is managed by the Fund's administrators assessing the Fund's likely cashflow needs and by the Investment Manager holding sufficient assets of appropriate liquidity to limit the impact of the cashflow requirements on the investment policy.
- Counterparty risk
 - is measured as the exposure to counterparties to a transaction (such as when entering 'buy-in' insurance contracts) and represents the risk that the counterparty defaults on its obligations resulting in a loss to the Scheme.
 - the Trustee undertook due diligence on LGAS prior to entering the buy-in insurance contracts and will continue monitoring their suitability as a counterparty on a regular basis
 - the Trustee negotiated various rights in these contracts to further mitigate this risk.

24. The Trustee exercises its powers of investment, and any managers to whom discretion has been delegated, will exercise their discretion in accordance with Regulation 4 of the Occupational Pension Schemes 2005 Investment Regulations (as amended from time to time).

25. Inadvertent breaches of guidelines may happen including as a result of market movements and will be reported to the Trustee. The aim in such cases will be to bring back the Fund within the guidelines within a reasonable period by asset purchases and/or disposals but without fire sales of assets.

This Statement of Investment Principles dated 15 June 2023 has been signed on behalf of the Trustee of the British Steel Pension Scheme.