Statement of Investment Principles

For the MUTB Pension Scheme

Effective from: January 2023

1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustees of the MUTB Pension Scheme.

It sets out our policies on various matters governing investment decisions for the MUTB Pension Scheme ("the Scheme"), which is a Defined Benefit ("DB") Scheme.

This SIP replaces the previous SIP dated June 2022.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Scheme and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Scheme's investments, but which are not required to be included in the SIP.

2. Investment objectives

Our primary objective is to ensure that the Scheme's benefit payments are met as they fall due. In addition to this primary objective, we have the following objectives:

- that the Scheme should be fully funded on a technical provisions basis;
- that the Scheme's investments should aim to hedge broadly 100% of the interest rate and inflation risk of the liabilities on an estimated buy-out basis;
- that the Scheme's investments should broadly match movements in buy-out pricing by holding a suitable allocation of gilts and high grade credit; and
- that the expected return on the Scheme assets is maximised whilst managing and maintaining risk at an appropriate level.

3. Investment strategy

We have agreed that the investment strategy of the Scheme should be as follows:

- The assets of the Scheme are invested in a combination of Corporate Bonds, Index-linked Gilts and Fixed interest Gilts.
- To broadly hedge 100% of the interest rate and inflation risk of the Scheme's liabilities when assessed on an estimated buy-out basis.
- The corporate bond allocation is held on a buy and maintain basis.

This led to the following asset allocation as at 23 November 2022:

Asset class	Current allocation
Corporate Bonds	24%
Index-linked Gilts (Over 5 Years)	20%
Index-linked Gilts (Over 15 Years)	34%
Fixed interest Gilts	23%
Total Invested assets	**100%**
Interest rate hedge ratio	c100%
Inflation hedge ratio	c100%

Note: May not sum to 100% due to rounding.

There is no formal rebalancing policy. We monitor the asset allocation and hedging ratios from time to time. If material deviations occur we will consider with our advisers whether it is appropriate to rebalance the assets or hedge ratios.

4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, our policy is to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes. The primary ways that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example credit risk and currency risk) and how we measure and manage those risks is set out in the SIP addendum.

In setting the strategy it is our policy to consider:

- the best interests of all members and beneficiaries;
- our investment objectives, including the target return required to meet these;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate; and
- the risks, rewards and suitability of several possible asset classes and investment strategies.

We also consider any other factors which we believe to be financially material over the applicable time horizon needed to fund the Scheme's benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our 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 find, 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;

- 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;

- long-term environmental, social and economic sustainability is one factor that we should consider when making investment decisions; and

- climate change is a financially material systemic issue that presents risks and opportunities for the Scheme over the short, medium and long term.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment manager setting out the terms on which the portfolio is managed.

Details of the investment manager are set out in the separate SIP addendum.

We have limited influence over the manager's investment practices because all the Scheme's assets are held in pooled funds, but we encourage our manager to improve its practices within the parameters of the funds it is managing.

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

It is our responsibility to ensure that the manager's investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect our investment manager to make decisions based on assessments of the longer term performance of debt issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our 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.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our 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

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable, but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation.

7. Financially material considerations and non-financial matters

We consider how environmental, social, governance ("ESG") considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Scheme and its members.

We influence the Scheme's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

All the Scheme's assets are invested in pooled funds. As such we have limited influence over managers' investment practices but we encourage our managers to improve their ESG practices within the parameters of their funds.

We do not consider 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.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe 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.

We have delegated to the investment manager the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. The Trustees expect the manager to undertake engagement in line with their stewardship priorities, considering the long-term financial interests of investors.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with our current investment manager on matters including ESG and stewardship. The Trustees' policy is that the investment manager exercises these rights effectively on their behalf. To monitor this the Trustees expect their investment manager to report on its stewardship of the Scheme's investments and will review the investment manager's corporate governance policy periodically.

The Trustees do not wish to interfere with the day-to-day investment decisions of our investment manager. However, the Trustees encourage their investment manager to comply with the principles outlined in the UN's Principles for Responsible Investing and the UK Stewardship Code where this is appropriate for their mandate.

The Trustees note that there are typically no voting rights attached to the Scheme's assets (ie 100% bonds). Nonetheless the Trustees expect their investment manager to engage with the issuers of their corporate debt as good stewards of capital.