STATEMENT OF INVESTMENT PRINCIPLES
August 2020

HENKEL RETIREMENT BENEFITS SCHEME
DB & DC SECTIONS

1. Introduction

The purpose of this Statement of Investment Principles (the "Statement") is to record the investment arrangements adopted by the Trustees of the Henkel Retirement Benefits Scheme ("the Scheme") for the Henkel DB Section and the Henkel DC Section and the rationale behind those arrangements.

The Scheme is comprised of several sections. Some sections provide benefits on a defined benefit ("DB") basis and others on a defined contribution ("DC") basis. In addition, some with DB benefits include DC investments in respect of members' additional voluntary contributions or "pension bonus" contributions.

For the purposes of this Statement, the sections which provide DB benefits will be referred to as the "DB Section" and the sections which provide DC benefits (including DC investments under DB sections) will be referred to as the "DC Section".

This Statement is designed to comply with the requirements of the Pensions Act 1995 as amended by the Pensions Act 2004 (the "Act"), the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, and subsequent legislation. It is also intended to fulfil the spirit of the Code of Best Practice (the "Myners Code") published in 2001 and revised in 2008 (DB) and 2010 (DC). In preparing this Statement, the Trustees have consulted Henkel Ltd ('the Company'), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing to the Scheme's investment arrangements.

Overall investment policy falls into two parts. The strategic management of the Scheme's assets is the responsibility of the Trustees, acting upon the advice from Mercer Limited ("the Investment Consultant") and driven by the objectives below. The remaining elements of the policy are the day to day management of the assets. For the Henkel DB section, this has been delegated to BlackRock ("the DB Investment Manager") who in turn can delegate responsibility for the investment of the assets to underlying investment managers. For the DC section, the Trustees have invested all of the assets in an insurance policy with Aviva that offers access to a wide range of pooled funds.

In considering the appropriate investments for the Scheme, the Trustees obtained and considered the written advice from their Investment Consultant, Mercer Limited, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 35 of the Pensions Act 1995 (as amended).

2. Defined Benefit Section ("DB Section")

2.1 Investment Objectives

The Trustees are required to invest the DB Section's assets in the best interests of the members, beneficiaries and Company and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regard to the investment policy are:

- to provide appropriate security for all beneficiaries
- to achieve long-term growth whilst managing investment risks

The Trustees recognise that the Company has a key role to play in assisting the Trustees to fulfil its primary responsibility of paying benefits and accordingly seeks to maintain the continued long-term support of the Company.

The Trustees are responsible for reviewing the DB Section's investment strategy in consultation with the Scheme's Investment Consultant.

2.2 Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the DB Section and have considered the impact of risks that they believe to be financially material within the expected lifetime of the Scheme.

The Trustees believe that the DB investment strategy provides for adequate diversification both within and across different asset classes and sectors. The Trustees further believe that the current investment strategy is appropriate given the DB Section's liability profile.

The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the DB Section arises as a result of a mismatch between the DB Section's assets and its liabilities. This is therefore the Trustees' principal focus in setting the investment strategy.
- The Trustees recognise that whilst increasing risk increases potential returns over the long term, it also increases the risk of a shortfall in returns relative to that required to cover the DB Section's liabilities as well as producing more short-term volatility in the DB Section's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) carefully considered the implications of adopting different levels of risk.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. The DB Section may invest in pooled funds or on a segregated basis.
- The documents governing the manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the DB Section. The manager is prevented from investing in asset classes outside its mandate without the Trustees' prior consent.

- The Trustees recognise the risk that are insufficient liquid assets available to meet benefit payments as they fall due i.e. “liquidity risk”. This is monitored according to regular comparison of the level of cash flows required by the Scheme over a specified period with the level of cash actually held. It is managed by holding an appropriate amount of readily realisable investments- the majority of the Scheme’s assets are invested in quoted markets.

- The Trustees are aware of the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates i.e. “currency risk”. The Trustees invest a proportion of assets in an overseas hedged equity fund to partially mitigate against this risk.

- There is a risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation i.e. “credit risk”. This is partially mitigated by the Scheme investing in corporate bonds that are rated as investment grade credit (i.e. higher quality bonds).

- The Trustees are mindful of the risk of changes to the Sponsor’s covenant. This is assessed as the level of ability and degree of willingness of the Sponsor to support the continuation of the Scheme and to make good any current or future deficit. It is managed by assessing the interaction between the Scheme and the Sponsor’s business, as measured by a number of factors, including the creditworthiness of the Sponsor and the size of the pension liability relative to the Sponsor.

- Considerations specific to Environmental, Social and Governance (“ESG”) issues are addressed in Section 4.2.

- Arrangements are in place to monitor the DB Section’s investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the DB Investment manager. These reports include an analysis of the overall level of return, to ensure the risks taken and returns achieved are consistent with those expected. The Trustees also take advice from the Investment Consultant on the manager’s performance, as required.

- The safe custody of the DB Section’s assets is delegated to professional custodians.

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Should there be a material change in the DB Section’s circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

2.3 Investment Strategy

Investment policy can be considered in two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustees and (2) the day-to-day management of the assets, which has been delegated to professional investment managers.

Given the investment objectives the Trustees have implemented the investment strategy detailed in Appendix A. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

2.4 Expected Return

Over the long term, the Trustees expect the return on the DB Section's assets to be sufficient to meet its objectives.

2.5 Day–to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to BlackRock as its fiduciary manager, who in turn can delegate responsibility for the investment of the assets to underlying investment managers. The Trustees have taken steps to satisfy themselves that BlackRock has the appropriate knowledge and experience for managing the DB Section's investments and is carrying out their work competently. The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which BlackRock may operate.

3. Defined Contribution Section ("DC Section")

3.1 Investment Objectives

The Trustees recognise that members have differing investment needs which may change during the course of their working lives. They also recognise that members may have different attitudes to risk. The Trustees believe that the members should make their own investment decisions based on their individual circumstances.

The Trustees' objective is to provide a range of investment options, which while avoiding complexity, should assist members in achieving the following:

- Maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement.
- Protecting the value of benefits in the years approaching retirement against sudden volatility in capital value and fluctuations in the cost of providing benefits.
- Tailoring a member's investments to meet his or her own needs.

The Trustees' Investment Consultant provides advice regarding the suitability of this approach.

The Trustees have also established a default investment option that is described in Appendix C, which is appropriate for any member not wishing to make his/her own investment decisions. There are also a number of 'technical defaults' in the Scheme which have been created following past mapping exercises, these are also set out in Appendix C.

The risks set out in Section 3.2 and other factors referenced are those that the Trustees consider to be financially material considerations in relation to the DC Section. The Trustees believe that the appropriate time horizon in which to assess as financially material considerations is based on individual member's horizons, and are dependent on member age and target retirement dates. In designing the default lifestyle option and alternative lifestyles the Trustees have considered the proximity to target retirement dates when designing the strategy.

The Trustees are satisfied that the funds offered to members and the appointed investment managers are consistent with the objectives of the DC Section, particularly in relation to diversification, risk, expected return and liquidity.

Scheme assets are mainly invested on regulated markets. Some funds may have higher exposure to securities not on regulated markets. It is at the discretion of investment managers to ensure these are kept to prudent levels.

The Trustees consider investment objectives and policies when choosing investments either for the self-select fund range or for inclusion within the default investment option. The Trustees receive written advice from their Investment Consultant on any investments prior to them being implemented. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3.2 Risk Management and Measurement

The Trustees have considered risk from a number of perspectives in relation to the DC Section, including the default option, all of which the Trustees believe are financially material. The list below is not exhaustive, but covers the main risks considered by the Trustees in formulating the policy regarding the default investment options.

Type of Risk		Description	How is the risk managed and measured?
Market Risk	**Inflation Risk**	The risk that the investment return over members' working lives will not keep pace with inflation.	The Trustees make available a range of funds, across various asset classes, with the majority expected to keep pace with or exceed inflation over the long term. Members are able to set their own investment allocations, in line with their risk tolerances. During the growth phase of the default option, members are invested in an allocation which is expected to grow their pension savings in excess of inflation. Within active funds, management of many of these risks is the responsibility of the investment manager. The Trustees consider fund performance, including that of the default investment option, on a quarterly basis.
	Currency Risk	The risk that fluctuations in foreign exchange rates will cause the sterling value of overseas investments to fluctuate.	
	Credit Risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the market value of investments.	

Type of Risk	Description	How is the risk managed and measured?
Pension Conversion Risk	Member's investments do not match how they would like to use their pots in retirement.	The Trustees make available three lifestyle strategies for members. Lifestyle strategies automatically switch member's assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age. The default option is a lifestyle strategy which targets income drawdown at retirement. As part of the annual default strategy review, the Trustees review whether the default destination remains appropriate by considering the membership profile, market trends and how members have previously accessed their pension savings. Members who wish to take their pots via other methods are able to choose alternative lifestyles which may be more suitable for targeting these outcomes, reducing the risk of mismatches between investment strategy and target destination.
Liquidity Risk	The risk that the Scheme's assets cannot be realised at short notice in line with demand.	The Scheme's assets are invested in daily dealt and daily priced pooled funds, via an insurance policy with Aviva. Investment managers are expected to manage the liquidity of assets in the underlying strategies and keep exposures to any illiquid assets to prudent levels.
Investment Manager Risk	The risk that the investment manager does not meet its fund performance objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustees consider fund returns relative to the benchmark. This is monitored on a quarterly basis. The Trustees consider the Investment Consultant's rating of the investment managers on an ongoing basis and prior to implementation.
Environmental, Social and Governance Risk	The risk that ESG factors, including climate change, have a financially material impact on the return of the Scheme's assets.	The management of this risk has been considered and investment managers are expected to integrate this into their processes. The Trustees review the investment managers' policies and actions in relation to this from time to time. The Trustees' policy on Responsible Investment and Corporate Governance is set out in Section 4.2

3.3 Investment Funds

The Trustees believe that the risks identified in 3.2 are best met by offering members a range of investment funds from which to choose. This will allow members to choose investment options suited to their personal requirements. These investment options are offered via a long term insurance policy with Aviva (see Appendix C).

4. Defined Benefit and Defined Contribution

4.1 Realisation of Investments

The Investment Manager has 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.

In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the Investment Managers to be able to realise the Scheme's investments in a reasonable timescale subject to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of assets are not expected to take an undue time to liquidate.

The Trustees have agreed a cashflow policy for the DB section, given that the deficit recovery contributions from the Company are expected to cease in 2019. The regular pension benefits are met by income from coupon payments from the buy & maintain credit mandate. Any extraordinary cashflow requirements in excess of the balance left in the cash fund held with BlackRock will be subject to BlackRock's discretion as the fiduciary manager.

4.2 Socially Responsible Investment and Corporate Governance

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The strategic rationale for holding different asset classes that help the Trustees to achieve the Scheme's investment objectives and constraints remains the primary driver behind the Scheme's investment strategy. However, within this context, the Trustees are increasingly considering how

ESG, climate change and stewardship issues are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

Member views are not currently taken into account in the selection, retention and realisation of investments in regard to the DB Section. This position is kept under review. Member views on investment strategy and fund selection in regards to the DC section are not actively sought out, but may be taken into account where expressed, typically through the fund options provided to the members.

For the DC Section, it is noted that the Trustees do not hold a direct relationship with the investment managers, rather the Scheme invests through insurance policy held with Aviva who has the direct relationship with managers. As such, the Trustee may set expectations for the underlying managers to follow but ultimately the investment platform holds the direct link with them. For the purpose of this policy for the DC Section where investment managers are referenced the Trustees are referring to the underlying investment managers.

In line with previous sections of this SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class the Trustees have appointed them for. The underlying investment managers are aware that their continued appointment is dependent on their success in delivering the mandate(s) that they have been appointed to deliver.

The Trustees look to their investment consultant for their forward-looking assessment of the investment managers' ability to achieve the funds' investment objectives over a full market cycle. The consultant's manager research ratings assist with due diligence and questioning the manager during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular fund changes, the Trustees will review the fund's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives. Some appointments are actively managed and the managers are incentivised through performance objectives for each fund (an appointment may be reviewed following periods of sustained underperformance or significant outperformance). The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) from time to time.

Where the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates have been selected to align with the overall investment strategy. The LDI and buy and maintain mandates within the DB section are actively managed, have been designed with the aim of a achieving a return in excess of the liability profile of the fund, while limiting downside risk. The Diversified Growth Funds that make up the Diversified Growth Strategy in the DC section have been appointed with the aim of achieving a return in excess of an absolute return benchmark, whilst limiting drawdowns relative to wider markets.

The Trustees will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process. This includes the investment managers' policy on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees meet with the investment managers from time to time and have the opportunity to challenge decisions made including voting history (in respect of equities) and engagement activity if they wish to try to ensure the best long term performance over the medium to long term. The investment managers are aware that their continued appointment is based on their success in delivering the mandates they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the managers.

The Trustees receive investment manager performance reports from the investment managers on a quarterly basis. For the DB section, they also receive six-monthly investment performance reports from the investment consultant, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustees review the absolute performance, the relative performance against a suitable benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustees regularly review this performance. The Trustees' focus is on long term performance, but they may put a fund 'on watch' if there are short term performance concerns and may look to replace the manager if performance does not improve. Furthermore, if a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review its fees (see Appendix B for details of current fees).

The Trustees do not define set ranges in respect of portfolio turnover and costs. The Trustees ask the investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustees. The Trustees will engage with the manager if portfolio turnover is higher than expected as reasonable for the type of mandate. In general, where passive mandates are utilised, the Trustees would typically not expect to see a large amount of turnover in the portfolio, whereas in active mandates higher levels of turnover may be expected.

The Trustees will assess portfolio turnover and costs by broadly comparing portfolio turnover relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus. In respect of the DC Section, the Trustees will also consider transaction costs as a method to assess the level of additional costs incurred by members that may indicate higher levels of turnover within a portfolio.

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

There is no set duration for the manager appointments. For both Sections, the Trustees will retain the investment manager and funds unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

In respect of the DC Section, the fund range and default strategy are reviewed on at least a triennial basis. Given the expected long time horizon for DC members within the Scheme, the investments are typically open-ended and expected to be perpetual.

These policies relating to responsible investment and corporate governance are applicable to both the default investment option (Appendix C) and all other arrangements within the DC section including the self-select fund range options.

4.3 Non-Financial Matters and Member Views

Non-financial matters refer to the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impacts of investments and the future quality of life of members.

Member views have not been explicitly taken into account in the selection, retention and realisation of investments. The Trustees make available a self-select ESG fund in the DC Section following a request from member for this type of fund.

4.4 Additional Voluntary Contributions (“AVCs”)

Under the terms of the Trust Deed the Trustees are responsible for the investment of AVCs paid by members. AVCs are currently invested with BlackRock, Equitable Life Assurance Society, Legal & General, Phoenix Life, Clerical Medical, Standard Life and Prudential. A proportion of contributions relating to AVCs and “pension bonus” contributions are invested with DC Section assets (detailed in Appendix C) in long term insurance policies held with Aviva.

The objective is to provide a return consistent with that achieved by typical investment options for AVC investment.

If Members are considering paying AVCs then the Trustees strongly advise that they seek FCA regulated financial advice.

With the assistance of the Scheme Actuary and the Trustees’ Investment Consultant, the Trustees will review these arrangements from time to time to ensure that they remain consistent with the needs of the members.

4.5 Custodian and Advisors

Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

The Trustees have appointed State Street as custodian of segregated investments for the DB Section. The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that BlackRock has procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Emily Brown of Mercer Limited is the appointed Scheme Actuary.

The actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The next valuation is expected to be performed by the Scheme Actuary, with an effective date of 31 December 2019. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Participating Employers’ contribution rate.

Investment Consultant

Whilst the day-to-day management of the Scheme's assets in the DB section is delegated to BlackRock, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers across the DB and DC sections is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

Administrator

The Scheme's administrator for the DB Section is Mercer Limited. The administration of the DC Section is provided by the Scheme's bundled investment platform provider, Aviva.

The investment platform provider for the DC Section

The Scheme's bundled investment platform provider is Aviva, who:

- Operates within the terms of this Statement and the written contract;
- Provides access to a platform through which third party funds can be accessed by the Trustees, for the DC Section's members;
- Provides the administration for the DC Section.

Mercer Workplace Savings

- Provides advice in selecting the investment platform provider;
- Provides on-going governance monitoring services (i.e. on the platform provider);
- Provides investment governance of the platform provider's fund range.

4.6 Fees

All fees associated with managing the Scheme's assets have been agreed between the providers and the Trustees.

4.7 Performance monitoring

The performance of each investment manager in the DB and DC Sections is monitored by the Investment Committee and Investment Consultant, using data provided by the Investment Managers. Performance is measured on a bi-annual basis and aggregated to facilitate comparison over longer periods.

In addition the Investment Committee meets the investment managers regularly to review their investment actions together with the reasons for and the background to the performance.

4.8 Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written confirmation from the Investment Manager that it has given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

4.9 Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

C C Ashton ……………………… 13 August 2020 ………………………

Trustee Date

The Trustees of the Henkel Retirement Benefits Scheme

Appendix A – Defined Benefit Section

Strategic Benchmark

The Trustees have agreed to de-risk the Scheme so that it is invested 90% in matching assets and 10% in growth assets. This decision followed a request by the Company to change the Scheme's investment strategy to reduce the risk of deterioration in the Scheme's funding level.

A summary of the strategic asset allocation for the Scheme is provided below.

Asset Class	Interim Central Allocation (%)	Permitted range (%)
Growth Portfolio*	**10.0**	**± 5**
Liquid		
Currency Hedged Developed Global Equity (ex UK)	6.6	± 3
UK Equity	0.4	
Emerging Market Equity	3.0	0/+ 2
Matching Assets	**90.0**	**± 5**
Buy and Maintain Credit	40.6	n/a
Cash	0.0	n/a
LDI Portfolio	49.4	n/a
Total	**100.0**	

The DB Section has a target hedge ratio of 95% of nominal and real interest rate exposure (on the Technical Provision basis for valuing the liabilities). The interest rate and inflation exposure from the LDI portfolio, together with the interest rate exposure from the Buy & Maintain Credit Fund, is used to achieve the required level of hedging.

There is a residual investment in private equity, amounting to c.0.5% of Scheme's assets (as at 31 July 2019). Over time the intention is for the private equity assets to decrease as investments are sold and no new allocations are being made to this asset class.

Performance Objectives

The overall objective of BlackRock is to outperform the composite benchmark. This consists of the total return on the benchmark indices for each asset class combined in the proportions shown in the table above. The performance objectives of the underlying funds are detailed overleaf.

BlackRock

Asset Class	Portfolio	Benchmark index	Performance Target (% p.a.)
Currency Hedged Developed Global Equity (ex UK)	Aquila Life Currency Hedged World Equity ex UK Fund	FTSE All-World Developed ex UK Index	To achieve returns in line with the benchmark
UK Equity	Aquila Life UK Equity Index Fund	FTSE All-Share Index	To achieve returns in line with the benchmark
Emerging Market Equity	iShares Emerging Markets Index Fund	MSCI Emerging Markets Index	To achieve returns in line with the benchmark
Buy and Maintain Credit	Segregated mandate	n/a	Invest in a diversified portfolio of primarily investment grade fixed income securities with the aim of delivering an attractive yield and spread. The portfolio will be managed on a buy and maintain basis. Its aim is to partially provide income to meet cashflow requirements and also, along with the LDI Portfolio, to provide interest rate exposure with the aim of achieving the target nominal hedge ratio.
Liability Driven Investment	Institutional Liquidity Fund; directly held cash, gilts, Network Rail bonds	n/a	To manage the LDI portfolio to control the interest rate and inflation exposure relative to the Scheme's cashflow portfolio.
Cash	Institutional Sterling Liquidity Fund	7 day LIBID	Maximise income through use of high quality short term money market instruments

Appendix B – Fees

Investment Management Fees

BlackRock receives a fiduciary fee which is fixed at 0.11% per annum of the market value of the total portfolio.

The underlying elements of the annual management charges (AMCs) are reflected in the table below:

Total Portfolio	**Rate p. a.**
Growth Assets	
BlackRock Aquila Life UK Equity Index Fund	0.04%
BlackRock Aquila Life World ex UK Equity Fund	0.04%
Aberdeen Global Emerging Markets Equity – G2 USD	0.75%
Aberdeen Global Emerging Markets Equity – D2 GBP	0.70%
iShares Emerging Markets Index Fund	0.10%
Matching Assets	
BIBF Over 10 Year Corporate Bond Fund	0.15%
Buy and Maintain Credit Portfolio*	0.14%
LDI Portfolio**	0.03%
Liquid Assets	
BlackRock Institutional Sterling Liquidity Fund	0.00%***

*Subject to a minimum fee of £150k per annum
**Subject to a minimum fee of £100k per annum
***There is no AMC for the BlackRock Institutional Sterling Liquidity Fund as reflected in the table above. However, for the avoidance of doubt, there will be a charge of 0.03% for third party expenses (custody, safekeeping, transaction fees, fund administration and transfer agency).

Appendix C – Defined Contribution Section

Lifetime Programme

The Scheme makes available three lifetime strategies for members.

i. The Lifetime Targeting Income Drawdown (the default investment option)

ii. The Lifetime Targeting Annuity

iii. The Lifetime Targeting Cash

All lifetime strategies invest 50% of assets in global equities and 50% in a diversified growth fund until eight years before the member's retirement date. As retirement approaches, these assets are gradually transferred into a pre-retirement funds suitable for the respective target and a cash fund (and retaining the diversified growth fund holding in the case of Lifetime Targeting Income Drawdown).

i. The Lifetime Targeting Income Drawdown (the default investment option)

Asset Class	Fund	Years to Retirement								
		8+	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**
Global Equities	Aviva Pension MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C)	50.0	43.75	37.5	31.25	25.0	18.75	12.5	6.25	0.00
Diversified Growth	Aviva Pension MyM Diversified Growth Strategy	50.0	43.75	37.5	31.25	25.0	18.75	12.5	6.25	0.00
Pre-Retirement Fund (Multi-Asset)	Aviva Pension MyM LGIM Retirement Income Multi-Asset Fund	0.0	12.5	25.0	37.5	50.0	62.5	70.0	70.0	70.0
Cash	Aviva Pension MyM BlackRock Institutional Sterling Liquidity	0.0	0.0	0.0	0.0	0.0	0.0	5.0	17.5	30.0

This Lifetime strategy is the default investment option for those members who do not wish to make an active choice on their investments. Further detail on the default investment option is provided below.

ii. The Lifetime Targeting Annuity

Asset Class	Fund	Years to Retirement 8+	7	6	5	4	3	2	1	0
Global Equities	Aviva Pension MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C)	50.0	38.0	25.0	13.0	0.0	0.0	0.0	0.0	0.0
Diversified Growth	Aviva Pension MyM Diversified Growth Strategy	50.0	50.0	50.0	50.0	50.0	38.0	25.0	13.0	0.0
Pre-Retirement Fund	Aviva Pension MyM LGIM Pre-Retirement	0.0	12.0	25.0	37.0	50.0	62.0	67.0	71.0	75.0
Cash	Aviva Pension MyM BlackRock Institutional Sterling Liquidity	0.0	0.0	0.0	0.0	0.0	0.0	8.0	16.0	25.0

iii. The Lifetime Targeting Cash

Asset Class	Fund	Years to Retirement 8+	7	6	5	4	3	2	1	0
Global Equities	Aviva Pension MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C)	50.0	38.0	25.0	13.0	0.0	0.0	0.0	0.0	0.0
Diversified Growth	Aviva Pension MyM Diversified Growth Strategy	50.0	50.0	50.0	50.0	50.0	38.0	25.0	13.0	0.0
Pre-Retirement Fund	Aviva Pension MyM LGIM Pre-Retirement	0.0	12.0	25.0	37.0	50.0	37.0	25.0	12.0	0.0
Cash	Aviva Pension MyM BlackRock Institutional Sterling Liquidity	0.0	0.0	0.0	0.0	0.0	25.0	50.0	75.0	100.0

The Aims and Objectives of the Default Investment Option

The default investment option manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

Typically, a proportion of members will actively choose the default investment option because they feel it is most appropriate for them. However, the vast majority of DC scheme members do not make an active investment decision and are invested in the default investment option.

The Trustees have made available a default investment option, the Lifetime Targeting Income Drawdown. The Trustees consider the default investment option to be appropriate for a member intending to take their retirement savings through income drawdown, along with a 25% tax-free cash lump sum, at retirement. The Trustees recognise that this will not be appropriate for all members and therefore encourages members to make their own investment decisions.

As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the default investment option aims to reduce investment risk as the member approaches retirement, relative to how they intend to take their benefits. These risks are managed via automated lifestyle switches over the eight-year period prior to a member's selected retirement date.

In designing the default investment option, the Trustees have explicitly considered the trade-off between risk and expected returns.

If members wish to, they can opt to choose their own investment strategy or an alternative lifetime strategy on joining but also at any other future date.

Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the profile of members. Assets in the default investment option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

Assets in the default investment option are mainly invested on regulated markets. Some funds may have higher exposure to securities not on regulated markets. It is at the discretion of investment managers to ensure these are kept to prudent levels.

Policies in Relation to the Default Investment Option

In addition to the Trustees' Investment Objectives (covered in Section 4.1) and the Aims and Objectives of the Default Investment Option above, the Trustees believe, with the aim that assets are invested in the best interests of members, that::

- The growth phase structure, that invests in global equities and other growth-seeking assets (through the use of a diversified growth fund), will provide growth with some downside protection and some protection against inflation erosion.

- The default investment option manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

- The Trustees have considered the balance of investments to be held in the default investment option, including the characteristics of particular asset classes and the balance between the use of active and passive investments where appropriate.

- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that the default investment option that seeks to reduce investment risk as the member approaches retirement is appropriate.
- Taking into account the current demographics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default investment option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.
- Assets in the default option are ultimately invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various investment managers.
- The selection, retention and realisation of assets within the pooled funds is at the discretion of the respective investment managers in line with the mandates of the funds. Likewise, the investment managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical conditions are taken into account in the selection, retention and realisation of investments as set out in Section 4.2.

Additional default arrangements

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Scheme has identified the investment options listed in the table below as 'default arrangements' (as defined by these regulations) in addition to the current default investment option in which new members are directed.

These have been identified as 'additional default arrangements' as members' accrued funds and contributions have been automatically directed to these funds without members having instructed the Trustees where their contributions are to be invested, these are not default arrangements for the purposes of auto-enrolment; these defaults exist due to historic investment option removals and were the result of three exercises:

- Mapping of former self-select funds to the Aviva My Money Platform (previously Friend's Life at the time of transition).
- Changes made to diversify the diversified growth fund from the Aviva MyMoney BlackRock DC Diversified Growth Fund to three underlying managers in the white-labelled Aviva MyMoney Diversified Growth Strategy.
- Rationalisation and transfer of assets held with Equitable Life to the main DC Scheme assets.

Further explanation and detail is provided in the table below.

Fund	Previous Arrangement	Reason for identification as a 'default arrangement'	Date
Aviva Pension MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C) Fund	L&G Global Equity (60:40) Index Fund	These defaults were created when funds were mapped to the Aviva Platform (previously Friend's Life) as part of the transition of the Scheme assets to the Aviva platform as part of the 2003 section.	December 2015
Aviva Pension MyM BlackRock Over 15 Year Gilt Index (Aquila C) Fund (50%)	L&G AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund		
Aviva Pension MyM BlackRock Over 15 Year Corporate Bond Index (Aquila C) Fund (50%)			
Aviva Pension MyM BlackRock Institutional Sterling Liquidity Fund	L&G Cash Fund		
Aviva Pension MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C) Fund (80%)	L&G Consensus Index Fund	These defaults were created when Loctite section funds were mapped to the Aviva Platform (previously Friend's Life) as part of the transition of the Scheme assets to the Aviva platform.	December 2015
Aviva Pension MyM BlackRock Over 15 Year Gilt Index (Aquila C) Fund (20%)			
Aviva Pension MyM BlackRock Over 15 Year Corporate Bond Index (Aquila C) Fund	L&G Over 15 Year Gilts Index Fund		
Aviva Pension MyM BlackRock Institutional Sterling Liquidity Fund	L&G Cash Fund		
Aviva Pension MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C) Fund (80%)	BlackRock DC Balanced Growth Fund	These defaults were created when Pension Bonus section funds were mapped to the Aviva Platform (previously Friend's Life) as part of the	December 2015
Aviva Pension MyM BlackRock Over 15			

Year Gilt Index (Aquila C) Fund (20%)		transition of the Scheme to the Aviva platform	
Aviva Pension MyM LGIM Pre-Retirement Fund	BlackRock DC Pre-Retirement Fund		
Aviva Pension MyM BlackRock Institutional Sterling Liquidity Fund	BlackRock Cash Fund		
Aviva Pension MyM Diversified Growth Strategy	Aviva Pension MyM BlackRock DC Diversified Growth Fund	As a result of the decision to replace the Aviva Pension MyM BlackRock DC Diversified Growth Fund with the Aviva Pension MyM Diversified Growth Strategy the decision was taken to move these members to the Aviva Pension MyM Diversified Growth Strategy without consent due to the belief that this was in the best interest of these members as it would provide a similar investment strategy.	October 2017
Aviva Pension MyM Diversified Growth Strategy (50%)	Equitable Life Managed Fund	This combination of funds is the default investment option growth phase. Following the decision to rationalise the Equitable Life Managed Fund it was deemed appropriate to move members into a broadly similar investment strategy which the growth phase provides.	December 2017
Aviva Pension MyM BlackRock Aquila Life (30:70) Currency Hedged Global Equity Index (50%)			
Aviva Pension MyM BlackRock Institutional Sterling Liquidity	Equitable Money Fund	Following the decision to rationalise assets held within the Equitable Life policies it was deemed that the Aviva Pension MyM BlackRock Institutional Sterling Liquidity was the most appropriate destination for assets held in the Equitable Life Money Fund.	December 2017

Prior to mapping members' investments across to the replacement funds, the Trustees took appropriate investment advice and considered these funds to be suitable for members in order to keep them in a similar type of investment fund as they were in previously and taking account of the demographics of the members invested in the funds. The Total Expense Ratios (‘TERs’), which is the cost associated with the managing and operating of the funds, are below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options.

The Trustees’ aims and policies in relation to the additional default arrangements are detailed below:

To provide members with a fund that is a suitable replacement for one that was removed from the Scheme.

- Assets in the default option are ultimately invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various investment managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective investment managers in line with the mandates of the funds. Likewise, the investment managers adhere full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical conditions are taken into account in the selection, retention and realisation of investments.

- The performance of these funds are monitored quarterly, with a strategic review being carried out at least triennially since falling under the categorisation of a ‘default arrangement’.

- Risks associated with these investments have been considered in line with the defined contribution section of the Risk Management and Measurement section of this document (Section 3.2).

The Trustees review both the default strategy and additional default arrangements at least every three years and without delay after any significant change in the investment policy or the demographic profile of relevant members. The Trustees monitor the performance of the default strategy and additional defaults arrangements quarterly via monitoring reports and advice from the Investment Consultant which includes considering the investment performance net of management fees and considering the Trustees’ aims and objectives are being met.

Day to Day Management of the Assets

Main Assets

The Trustees have contracted with Aviva via a long-term insurance contract. The Plan’s investment platform is provided under contract with Aviva and Mercer Workplace Savings, both of whom are regulated by the Financial Conduct Authority (the “FCA”).

The Trustees undertake to review the investment options offered to members and the investment manager arrangements on a regular basis. The investment options comprise primarily of equity, bonds, diversified growth funds and cash.

The Trustees expect the Investment Managers to manage the assets appropriately under the terms of their contracts. The Investment Managers have full discretion to buy and sell investments, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and on the basis of having carried out appropriate due diligence.

3.2 Spread and Suitability of Investments

The Trustees are satisfied that the spread of assets by type, and the investment managers' policies on investing in individual securities within each type, provide adequate diversification of investments. Mercer monitor the suitability of the investment options (outlined below), through ongoing research and performance reviews.

As the assets of the Scheme are invested in the pooled fund vehicles underlying the funds offered by Aviva, the investment restrictions applying to these funds are determined by the underlying investment managers.

Investment Options

Details of the range of funds available are set out below together with the corresponding annual management charge.

Asset Class	Fund	Total Expense Ratio (% p.a.)
UK Equities	FL MyM BlackRock UK Equity Index (Aquila C)	0.23
Overseas Equities	FL MyM BlackRock World ex UK Equity Index (Aquila C)	0.23
Global Equity Fund (L)	FL MyM BlackRock (30:70) Currency Hedged Global Equity Index (Aquila C)	0.3
Diversified Growth Fund (L)	FL MyM BlackRock DC Diversified Growth	0.95
Pre-Retirement Fund (L)	FL MyM LGIM Pre-Retirement	0.32
Cash Fund (L)	FL MyM BlackRock Institutional Sterling Liquidity	0.23
Corporate bonds	FL MyM BlackRock Over 15 Year Corporate Bond Index (Aquila C)	0.24
Government Bonds (Fixed Interest)	FL MyM BlackRock Over 15 Year Gilt Index (Aquila C)	0.23
Government Bonds (Inflation Linked)	FL MyM BlackRock Over 5 Year Index-Linked Gilt Index (Aquila C)	0.23
Ethical Fund	FL MyM LGIM Ethical Global Equity Index	0.37
-	Lifetime Targeting Annuity*	0.68
-	Lifetime Targeting Income Drawdown *	0.68
-	Lifetime Targeting Cash*	0.68

(L) These funds are component funds of the lifestyle strategies
*Maximum TER