DUKPS Section of the Deloitte Pensions Master Plan

Statement of Investment Principles

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1. Introduction

This is the Statement of Investment Principles (the "**Statement**") for the DUKPS Section of the Deloitte Pensions Master Plan (the "**Section**") as required by section 35 of the Pensions Act 1995 (the Act), as amended by the Pensions Act 2004, and the Occupational Schemes (Investment) Regulations 2005 (the Investment Regulations). The Statement sets out the principles governing decisions about the investment of the assets of the Section. This statement is issued by D&T Pension Trustees Limited (the "**Trustee**"). It sets out the Trustee's policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

This Statement is effective from June 2024 and has been approved by the Trustee.

The Section provides defined benefits for members as well as an arrangement into which defined benefit members have made defined contribution Additional Voluntary Contributions ("**AVCs**").

1.1 Advice

As required under the Pensions Act 1995, the Trustee has obtained written advice from Isio Services Limited ("**Isio**" or the Trustee's "**Investment Adviser**") on the content of this Statement. Isio is authorised and regulated by the Financial Conduct Authority ("**FCA**"), and the Trustee believes that Isio is qualified by their ability in, and practical experience, of financial matters, and has the appropriate knowledge and experience of the management of the investments of occupational pension schemes set up under trust.

1.2 Consultation

The Trustee has consulted the Principal Employer, Deloitte LLP, about the content of this Statement. Deloitte LLP has been nominated by the other participating employers in the Section to act for this purpose.

1.3 Investment Powers

In the Trustee's opinion, the Trust Deed and Rules of the Section do not restrict the types of investments in which the Section's assets may be invested.

Nothing in this Statement restricts any power of the Trustee to make investments by reference to the consent of the employer (see Section 35(4) of the Pensions Act 1995).

1.4 Insurance Policies Held

Certain benefits in payment from the Section (either arising from a transfer into the Section from other pension schemes or as a result of securing pension benefits which have come into payment from the Section) are backed by insurance policies issued by insurance companies. These policies provide cashflow payments in relation to the Section's obligation to pay the benefit in relation to specific members.

Those benefit obligations of the Section and the associated insurance policies (the **"Annuity Assets"**) are covered in **Section 3** of this Statement.

1.5 Compliance

The Trustee's policy to ensure compliance with the requirements of Section 36 of the Pensions Act 1995 (choosing investments) uses a number of different approaches.

Primarily these are monitoring the requirements of Section 36 and the underlying Occupational Pension Schemes (Investment) Regulations 2005 (both as amended) and embedding the requirements of that legislation (and any subsequent legislation) into any investment management agreements the Trustee enters into, and also by having clear terms of reference for the Trustee board and its sub-committees in relation to investment matters, with appropriate formal investment advice obtained where required.

2. Defined Benefit Section Assets

2.1 Investment Objective

Having considered the Section's specific circumstances, the Trustee's overall investment policy is guided by the following objectives:

- To ensure all obligations to the beneficiaries of the Section are met in a timely manner.
- To invest the Section's assets appropriately to run on a low-risk basis to lessen funding level volatility and to reduce the likelihood of placing any unnecessary reliance on the Sponsor.

2.2 Expected Return

The Trustee's policy is that it expects, over the long-term, the investments will deliver a return that is consistent with the return assumptions used by the Section Actuary in the Actuarial Valuation after allowing for a degree of prudence.

2.3 Investment Policy

The decision on the kinds of investment to be held and the balance between different investments (i.e. setting the Section's asset allocation) is the responsibility of the Trustee acting on advice from their investment advisor, Isio and consulting with the Principal Employer. This decision is driven by the Trustee's investment objectives (above) and its tolerance for risk, recognising that the Section is exposed to different risks and the significance of these risks will change over time. The Trustee sets the investment policy with regard to the Section's funding level and to reflect the Principal Employer's financial strength and commitment to the Section.

When choosing the Section's asset allocation strategy the Trustee considered written advice from their investment advisor and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- The need for liquidity.

The Trustee is aware that the appropriate balance of different kinds of investments will vary over time and therefore the Section's asset allocation will be expected to change as the Section's liability profile continues to mature.

The Trustee recognises the need to review the suitability of the Section's investment strategy on a regular basis.

It is the Trustee's policy to record details of the implementation of the investment strategy as it stands from time to time in the Section's Investment Implementation Policy Document (the "IIPD"). The IIPD does not form part of the Section's Statement of Investment Principles.

2.4 Risks and Risk Management

Funding Risk is the risk that the Section has insufficient assets to meet all of its liabilities. In this regard the Trustee liaises with the Principal Employer (as sponsor to the Section) to consider the level of risk being taken in the context of the Trustee's view of the financial strength of Deloitte LLP and its commitment to and ability for supporting the Section.

The Trustee has identified a number of risks which have the potential to adversely impact the funding level of the Section and, therefore, contribute to Funding Risk. Those risks include investment risks and the Trustee's policy in relation to investment risks (including how the Trustee measures and manages them) are as follows:

- **Mismatching Risk** - the risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors. In particular, the risk that a fall in the level of interest rates or a rise in the level of inflation expectations could result in the value of the Section's liabilities to increase to a greater extent than the Section's assets increase.

  The Trustee and its investment adviser considered this risk when setting the investment strategy. The Trustee has a large degree of interest rate and inflation hedging by investing in a liability hedging portfolio. The level of hedging is broadly 95% of the Section's liabilities on a low risk basis. This is designed so that 95% of the move in the liabilities as a result of movements in interest rates and inflation expectations is matched by movements in the value of this liability hedging asset portfolio to significantly reduce funding level volatility from movements in interest rates and/or inflation.

- **Liquidity Risk** - the risk of a shortfall of liquid assets relative to the Section's immediate cashflow liabilities. The Trustee's policy is to manage the Section's cashflows taking into account the timing of expected future payments in order to minimise the likelihood that this occurs. In this regard, the Trustee's policy is to take into account the potential income generated by the underlying investments and monitor the expected cashflows in and out of the Section, looking to maintain an appropriate level of cash in a suitable cash fund or the Trustee's bank account. As part of this exercise, the Trustee will regularly review the proportion of the Section's assets that is invested in pooled funds and other investment vehicles where liquidity is either constrained or limited due to the nature of the investment.

- **Market Risk and Manager Risk** - the failure by the investment vehicles in which the Trustee invests the Section's assets, to achieve the rate of investment return assumed by the Trustee. This risk is considered by the Trustee and its investment adviser both upon the initial selection of the investment vehicles and on an ongoing basis.

- **Concentration Risk** - the failure to spread investment risk through diversification of assets. The Trustee and its investment adviser consider this risk when setting the investment strategy. The Trustee's policy is to take steps to ensure that the underlying investments in the pooled investment vehicles are diversified by asset class and, where relevant, by country and sector.

- **Credit Risk** - the credit risk on the Section's investment vehicles with investment managers. The investment manager credit risk is mitigated by the fact that the underlying assets are ring-fenced from the investment manager and the regulatory environment in which the investment managers operate.

- **Covenant Risk -** the possibility of failure of the Section's sponsoring employers. The Trustee and its investment adviser considered this risk when assessing the appropriate level of investment risk to have within the investment strategy and consulted with Deloitte LLP as to the suitability of the proposed strategy. The Trustee also reviews the strength of the sponsoring employer and its ability to continue to meet deficit reduction contributions on an ongoing basis with support from a covenant advisor.

- **Collateral Risk -** the risk that there will be a requirement for the Section to post additional collateral to the investment manager to maintain the level of interest rate and inflation hedging at a time when markets are either stressed or liquidity is constrained. The Trustee's hedging portfolio is well collateralised with liquid cash and government bonds to mitigate this risk.

- **Operational Risk -** the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by aiming to ensure that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received. Reviews of the risks are part of the audit, both internal and external, of the Section.

- **Change of Law Risk** - the change of law risk in relation to the investment of the Section's assets.

- **Audit Compliance Risk** - the risk that one or more of the investment funds selected by the Trustee becomes a "restricted entity" as defined by the Principal Employer's National Quality Risk Management ("NQRM") team. The Trustee looks to manage this risk by keeping the NQRM team updated on funds where the Section's assets are invested, as well as checking for potential conflicts prior to any investments being made. A conflict check system alerts the Trustee of an entity becoming restricted where it relates to the Section's investments to enable the Trustee to alter the investments if required to retain audit independence.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner.

Having set an investment objective which relates directly to the liabilities of the Section, and implemented it using a range of investment vehicles, the Trustee's policy is to monitor, where practicable, these risks periodically.

2.5 Leverage and Collateral Management

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Section's liability hedging (LDI) portfolio.

The Trustee has a stated collateral management framework. The Trustee has agreed a process for meeting collateral calls should these be made by the Section's LDI investment manager. The Trustee will review and stress test this framework on a regular basis.

Further details on this can be found in the Section's IIPD document.

2.6 Employer Related Investments

Neither the Trustee nor the pooled investment vehicles currently hold any employer-related investments, as defined by Section 40 of the Pensions Act 1995.

2.7 Monitoring of Investments

It is the Trustee's policy that each quarter the performance of the Section's assets should be monitored and compared with the Section's performance objectives.

The Trustee receives quarterly monitoring reports from its advisors showing:

- actual estimated funding level versus the Section specific funding objective;
- performance for the assets in totality and for individual pooled investment vehicles (or, as applicable, investment options selected under those pooled investment vehicles) versus their respective benchmarks and targets;
- any significant issues with the pooled investment vehicles and their manager or operators that may impact their ability to meet the performance targets set by the Trustee; and
- any significant issues or developments with the organisations appointed by the Trustee to manage the investments that could have an impact on the security of the Section's assets.

2.8 Socially Responsible Investment and Stewardship

The Trustee is responsible for setting the Section's investment strategy and implementing that strategy through the appointment of investment managers and selection of investment funds. When setting investment strategy and selecting investments, the Trustee's first priority is the financial interests of the members. The Trustee regularly reviews the return objectives, risk characteristics, investment approach and investment guidelines of each of the Section's current investments. The Trustee is satisfied that all existing fund investments fulfil the needs of their target investment strategy and by extension, that the chosen investment managers are managing the Section's assets in a manner which is consistent with the objective to provide members' benefits.

The Trustee acknowledges that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Section's investments and the likelihood that the Section's objectives will be achieved. To confirm, the Trustee's policy is not to take into account non-financial matters in the selection, retention, and realisation of investments. Therefore, no consideration has been given to non-financial matters, nor has the Section's membership been consulted on such issues.

The Trustee has agreed a set of investment beliefs in relation to environmental, social and governance ("ESG") factors (including climate risk) and the impact that these factors can have on the risk and return profile of the Section's investment strategy. These have been documented in full in a beliefs statement that does not form part of the Statement. In summary, the Trustee believes that:

- These factors should be considered when selecting, retaining and realising investments as they are financially material from a risk and return perspective and can impact the likelihood that the Section's objectives are achieved over the appropriate time horizon of the Section.

- Engagement with companies in which the Section invests (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on these factors can add value. In particular, the Trustee expects engagement by its investment managers on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, and social, environmental and ethical issues concerning Trustee investments. The Trustee believes such engagement will protect and enhance the long-term value of its investments.

- Well governed companies will outperform less well governed companies and that governance and social impact should be primary considerations for all of the Section's investment managers when making investments.

- Environmental factors (including the risk emanating from climate change) should be considered by the Section's investment managers when making investment decisions.

- The required investment returns can be achieved whilst reducing risk if the Section's exposure to companies and sectors at risk to climate change is reduced.

- The Trustee would be willing to change investment managers if ESG factors are not adequately integrated into the investment decision making process when selecting and retaining investments or where the investment manager does not actively engage with the companies in which it invests to influence positive ESG change.

The Trustee's policy is to invest in pooled investment vehicles such as unit-linked insurance policies and collective investment schemes.

In the case of an investment in a unit-linked policy, it is the insurance company issuing the unit-linked policy that is responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments. This includes the unit-linked policy held by the Trustee.

Likewise, it is the fund management firm that is responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments and for the exercise of rights (including voting rights) held by the pooled funds.

In relation to those investment vehicles which are index tracking, the Trustee recognises that it is not possible for the investment manager to take ESG factors into account when selecting investments as the investment objective is to track the index in question. However, the Trustee expects the investment manager to use its voting rights and to actively engage with the senior management of the companies in which it invests in order to encourage positive ESG change.

The Trustee's policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Section's interests in the investments, having regard to appropriate advice.

As part of the selection, retention and realisation of the Section's investments, the Trustee has reviewed the ESG and stewardship policies of each of the Section's investment managers across all of the asset classes where the Section has investments (but excluding the AVC managers). A significant portion of the Section's assets are invested in government bonds for liability matching purposes. However, the remainder is invested across asset classes where ESG integration and engagement practices are relevant and actionable.

The outcome of this detailed review was that the Trustee believes that the investment managers of the Section's current investments do reasonably consider financially material ESG factors and their potential impact on risk and return when making investment decisions across the various asset classes that the Section invests in. Where the Section has passive investments the investment manager actively engages with companies in which it invests and utilises voting rights to encourage change. The Trustee notes that a number of the Section's current investment managers focus on value creation through using ESG factors and look at ESG opportunistically as well as from a risk perspective.

The Trustee is comfortable with these policies and that ESG is considered throughout the investment process.

The Trustee has considered where it is possible within the Section's investment strategy to go further than risk mitigation and to adapt the investment strategy to focus further on these ESG factors including climate risk. There is a limit to where the Trustee can influence the processes within the pooled investment vehicles that the Section is invested in as this is at the discretion of the investment manager and the Trustee is comfortable with the existing managers' practices as a minimum.

The Trustee expects the Section's investment managers to provide regular updates on how each exercises voting rights and actively engages with the companies in which it invests, including how often it votes against company proposals. The Isio Investment Team will provide a summary of this to the Trustee on a regular basis.

2.9 Asset Manager Arrangements

If the Trustee believes that any of the Section's investment managers is no longer acting in accordance with the Trustee's policies (as set out in this Statement), including those regarding ESG and engagement with investee organisations to assess and improve their medium to long-term financial and non-financial performance, the Trustee will take the following steps:

- engage with the investment manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustee's policies and views.

The Trustee believes that this approach will incentivise the investment manager to align its actions with the Trustee's policies.

The Trustee recognises the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustee has set an appropriate monitoring framework to ensure the Section's investment managers are regularly reviewed. This is to promote greater transparency in understanding the reasons behind performance trends and key risk exposures, and also engagement activity and compliance with the Trustee's stated ESG policy above.

Regular monitoring, with specific reference to ESG factors, should incentivise the Section's investment managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.

The Trustee also recognises the importance of regular monitoring of the investment managers' performance, remuneration and compliance against the Trustee's ESG policy to ensure that the Section's assets are being managed appropriately. The Trustee believes that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are identified and concerns communicated with the relevant investment manager.

In addition to quarterly performance measures (noted in section 2.7), the Trustee will review the engagement activity of the investment managers on an annual basis to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustee will, where applicable, also monitor the voting activity of the investment managers to ensure votes are being used and are aligned to their views on ESG.

The Trustee also reviews the fees charged by its investment managers on a quarterly basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Section's size and complexity.

The Trustee reviews investment manager costs and charges (including the portfolio turnover costs incurred as a result of the buying, selling, lending or borrowing of investments) on a quarterly basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustee also monitors on a quarterly basis the portfolio turnover (the frequency that assets of the Section are bought and sold) in the context of what the Trustee expects given the nature of each mandate. By also monitoring performance net of all costs, investment managers are incentivised to consider the impact of portfolio turnover on investment performance.

The remuneration of the investment managers is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustee will review and replace the investment managers if net of fees investment performance and ESG practices are not in line with the Trustee's expectations and views. This incentivises the investment managers to act responsibly.

2.10 Realisation of investments

The Trustee's policy in relation to the retention and realisation of investments is that:

- investments should be retained and realised at a time considered by the Trustee after obtaining proper advice to be appropriate the Section unless earlier realisation is required or considered advisable as part of the overall risk management of the Section or is otherwise required to be realised to meet benefit payments or transfer values.

- in retaining any investment, it is the Trustee's policy to review periodically whether the continued retention of that investment is appropriate and to obtain proper advice on whether retention is satisfactory given the matters referred to in this Statement.

The Trustee's policy on the duration of arrangements with investment managers is set out below. The Trustee, with guidance from its investment advisor, has chosen to invest in a combination of open-ended pooled funds and one closed-ended fund.

- For open-ended pooled funds the Trustee's policy is to enter arrangements with no fixed end date. However, in this case the Trustee will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Section's open-ended investments are a combination of daily and weekly. The Trustee will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of managers' performance against objectives. The Trustee may also elect to terminate the arrangement with an asset manager when performing ongoing reviews of the suitability of the Section's asset mix over time.

- For liquidity reasons, the Trustee's policy is not to enter into closed-ended arrangements. Previously, the Trustee's policy was to enter arrangements of a length commensurate to the nature of the underlying investments, taking advice from its investment advisor. The Trustee currently has one legacy closed ended infrastructure equity investment.

3. Annuity Assets

This section provides information in relation to the Annuity Assets held by the Trustee which are referred to in **1.4** above.

The insurance policies have been issued by insurance companies which are regulated by the Financial Conduct Authority, the policy of the Trustee is to rely on the supervision by the Financial Conduct Authority of those insurance companies issuing those policies and, having regard to the relatively small size of those policies in relation to the Section's assets as a whole, not, in general, to duplicate the activities of the Financial Conduct Authority unless any particular concerns in relation to the insurance company are publicised by the Financial Conduct Authority or otherwise come to the attention of the Trustee.

Where such concerns in relation to the insurance company are publicised, then it is the policy of the Trustee to obtain proper advice from the investment adviser at the time in question as to whether the Trustee should, having regard to the surrender options, if any, and surrender penalties attaching to the policy in question, take action to surrender the policy.

The main, if not the sole, risk in relation to the Annuity Assets is the solvency of the insurance company issuing the insurance policy in question.

The Trustee's policy for managing this risk is as indicated in the preceding paragraphs of this section. The Trustee considers that this risk is of a qualitative rather than a quantitative nature and is not one that can practicably be measured in relation to the Annuity Assets, having regard to the relatively small size of the Annuity Assets in relation to the assets of the Section.

The Trustee's policy in respect of the return on the Annuity Assets is that the Annuity Assets will provide a return which relates to the benefit obligations of the Section which are matched by those Annuity Assets.

The Trustee does not expect to have to realise the Annuity Assets, as they are intended to be held until the amounts cease to be payable following the death of the individuals whose benefits from the Section are backed by the Annuity Assets.

The Trustee does not consider that social, environmental or ethical considerations are relevant in relation to the selection, retention or realisation of the Annuity Assets.

The Annuity Assets do not have any voting rights attaching to them. In so far as the Annuity Assets have other rights attaching to them, the Trustee will exercise those rights as the Trustee determines, with the benefit of appropriate advice, to preserve the Annuity Assets.

4. Additional Voluntary Contributions

A range of funds are made available to members of the Section who paid additional voluntary contributions ("**AVCs**") prior to closure of the Section. No new monies are being paid into these funds.

The Trustee monitors the performance of all the AVC funds offered.

The Trustee's policies in relation to money purchase AVCs are set out below.

4.1 In relation to money purchase AVCs paid by a member:

- which started to be paid before 31st October 2003; and
- which the relevant member has not opted to invest in the range of different investment options selected by the Trustee;

to continue to provide AVC vehicles which would not necessarily meet the Trustee's current criteria for an investment option where investment in those investment vehicles has been made in the past or before a member became a member of the Section. This is, in some cases, in the interests of avoiding penalty charges on disinvestment.

4.2 Within the constraints imposed by the Trust Deed and Rules of the Section, the Trustee is responsible for providing a range of AVC investment options that the Trustee considers to be suitable as investment options to meet different return and diversification objectives of members without over-complicating choices.

4.3 When selecting an AVC investment vehicle provider and AVC investment vehicles, the Trustee will obtain proper advice (for the purposes of Section 36 of the Pensions Act 1995) and to take into account the financial strength of the provider, past performance, charging structure, flexibility and quality of administration.

4.4 Within the constraints of the Trust Deed, the Trustee will review regularly the continued suitability of each AVC investment vehicle provider, and of the particular investment vehicles offered by the provider with the benefit of advice from a properly qualified person (for the purposes of Section 36 of the Pensions Act 1995, as amended).

4.5 If the Trustee judges that the AVC investment vehicles, within the constraints on the Trustee's powers imposed by the Section's Trust Deed, or any of them, are no longer appropriate, having regard to the requirements of Section 36 (Choosing investments) of the Pensions Act 1995, to consider whether it is appropriate to realise those investments.

4.6 In normal circumstances, realisation of the assets backing a member’s AVC investment account will be determined by the investment decisions taken by the member in relation to their investment account, unless the member's investment account is applied when benefits due in respect of that member become payable or a transfer value becomes payable.

4.7 The expected return on the AVC investments is that which is appropriate to the AVC vehicle in question.

4.8 The Trustee’s policy on socially responsible investment and corporate governance and voting rights is detailed in section 2.8 above.

5. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually, or more frequently if necessary.

6. Review of this Statement

The Trustee is required to review this Statement at least once every three years and without delay after any significant change in investment policy.

Where the policy is revised the Trustee must obtain and consider written advice of a person who is reasonably believed by the Trustee to be qualified by his ability in financial matters and have appropriate knowledge and experience of the management of investments of occupational pension schemes and to consult the principal employer on behalf of all of the employers.

This Statement was agreed between D&T Pension Trustees Limited and Deloitte LLP in July 2024.