Barnes Group (UK) Limited Pension and Life Assurance Scheme

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Barnes Group (UK) Limited Pension and Life Assurance Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") in order to record the principles adopted by the Trustees of the Scheme when making investment decisions. The Statement is designed to meet the requirements of the Pensions Act 1995 and subsequent legislation. As required by UK legislation, the Trustees have also prepared a Statement of Investment Principles in respect of the DC Section's default lifestyle investment strategy, which is set out in the Appendix of this document.

The Trustees have obtained written professional advice from the Scheme's Investment Consultant, Mercer Limited ("Mercer") in preparing this Statement. The Trustees believe that Mercer meets the requirements of the Pensions Act 1995 and subsequent legislation and regulation. Barnes Group (UK) Limited ("the Principal Employer"), as the sponsor of the Scheme, has also been consulted. Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary.

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Principal Employer that they judge to have a bearing on the Statement. This review will occur no less frequently than triennially.

2. Structure of the Scheme

The Scheme has both a Defined Benefit ("DB") and a Defined Contribution ("DC") section. The DB Section of the Scheme is closed to new joiners and to the accrual of new benefits. At the time of closure to accrual of new benefits active members of the DB Section were offered membership of the DC Section for future benefits. The DC Section remains open to new entrants.

3. Process for Choosing Investments

Overall investment policy falls into three parts. The strategic management of the assets is fundamentally the responsibility of the Trustees, acting on expert advice, and is driven by their investment objectives as set out in Section 4 below.

The second element is the day-to-day management of the assets, which is delegated to professional investment managers as described in Section 6.

The final part is the ongoing measurement and monitoring of the performance of the appointed managers against predetermined benchmarks. Again, this is the responsibility of the Trustees.

In considering investments for the Scheme, the Trustees obtain and consider written advice from the Investment Consultant, who 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 36 of the Act (as amended).

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time.

An Investment Sub-Committee ("the ISC") has been established to facilitate the involvement of the Principal Employer's US Parent Company in the Trustees' discussions relating to the structure of both the DB and DC Sections of the Scheme. In particular, the ISC provides a framework through which discussions can take place between the aforementioned parties regarding changes to the DB Section's long-term investment strategy. The ISC will also consider general issues and new investment opportunities.

The ISC has no delegated authority to make decisions in connection to the Scheme, which remain the sole responsibility of the Trustees.

Details regarding the constitution of the ISC, as well as its role, are set out in the ISC's Terms of Reference.

The Trustees believe that the Statement aligns with the rules of the Scheme and its investment policies and their implementation are in keeping with best practice, including the principles underlying the Pensions Regulator's DC Code of Practice No 13. As required by UK legislation, the Trustees have also prepared a Statement of Investment Principles ("SIP") in respect of the DC Sections' default lifestyle investment strategy.

4. Investment Objectives

DB Section

The Trustees' investment objectives are as follows:

- To ensure that obligations to the beneficiaries of the DB Section are met.
- To control the level of investment risk in order to try to avoid unintended consequences such as a significant fall in the funding level or an excessive rise in contributions above a level that can be supported by the Principal Employer.

DC Section and Additional Voluntary Contributions ("AVCs")

The Trustees recognise that members have different investment goals and that these may change during the course of their working lives. They also recognise that members have different attitudes to risk. The Trustees' objective is to make available to members a range of investment options which seek to allow members to set an investment strategy that meets their needs and risk tolerances.

The Trustees recognise that members may not believe themselves qualified, or may not wish to make their own investment decisions. As such, the Trustees make available a default lifestyle investment strategy. The Trustees acknowledge that this strategy will not meet the needs of every individual member.

5. Risk

DB Section

The Trustees recognise that it is not necessarily possible, or even desirable, to select investments that exactly match the DB Section's estimated liabilities. Given the ongoing commitment of the Principal Employer, a degree of investment risk can be taken on, in the expectation of generating excess returns relative to the lowest risk strategy, since it is also acceptable to the Principal Employer.

The Trustees are aware that accepting a degree of investment risk means that there is a chance that one or more of their investment objectives will not be met. Accordingly, the Trustees have considered the following risks to which the DB Section is exposed:

- The risk of deterioration in the DB Section's ongoing funding level.

- The risk of a shortfall of assets relative to the liabilities, as determined if the Scheme were to wind up.

- The risk that the day-to-day management of the assets does not achieve the rate of investment return expected by the Trustees.

- The risk that the investment managers underperform the benchmark against which they are assessed. The Trustees recognise that the use of active management involves such a risk and, as a result, the majority of the DB Section's investments are managed on a passive (index tracking) basis.

The Trustees' willingness to take investment risk is dependent on the financial strength of the Principal Employer and its willingness to contribute appropriately to the DB Section. The financial strength and perceived commitment of the Principal Employer to the DB Section is monitored and the Trustees will review the level of investment risk relative to the liabilities should either of these deteriorate.

The degree of investment risk the Trustees are willing to take also depends on the financial position of the DB Section. The Trustees periodically review the funding level of the DB Section and its liability profile, with a view to altering the investment objective, risk tolerance and/or return target should there be a significant change in either.

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees consider the risks set out below to be financially material over the expected lifetime of the DB Section:

- The risk arising through a mismatch between the DB Section's asset and liabilities. The Trustees aim to mitigate this risk by investing a proportion of the DB Section's assets in instruments that are expected to react in a similar way to movements in long term interest rates and inflation expectations as the DB Section's liabilities.

- The Trustees also recognise the market risk associated with the different asset classes in which the DB Section invests. The Trustees believe that diversification by asset class limits the impact of any single risk. However, the diversification of risk across multiple sources is constrained by the Trustees' ability to implement and effectively monitor the range of investments being considered. In light of this, and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The Trustees recognise that there is a risk in holding assets that cannot easily be sold, should the need arise, and therefore looks to invest in funds which are readily marketable. Where this is not the case, consideration is given to the overall liquidity of the DB Section's assets with the aim of ensuring that there is sufficient liquidity to meet the DB Section's ongoing cash flow requirements.

- The Trustees believe that Environmental, Social and Governance ("ESG") issues, including climate change, may have substantive impacts on the global economy and therefore investment returns. The Trustees seek to minimise the risks associated with such issues by taking them into account in the selection, retention and realisation of the investment managers. Section 7 of this Statement documents the Trustees' policy on ESG integration.

The investment strategy and manager structure have been designed to meet the Trustees' objectives and to control the risks identified above. The Trustees target an overall investment return sufficient to meet the assumptions underlying the Scheme's Technical Provisions and Recovery Plan.

DC Section and AVCs

The Trustees have considered investment risk for the DC section of the Scheme from a number of perspectives. These are set out in the table below:

Risk		Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the investment return over members' working lives will not keep pace with inflation and does not secure an adequate pension.	The Trustees make available a range of funds, across various asset classes, with the majority expected to keep pace with inflation. Members are able to set their own investment allocations, in line with their risk tolerances. Within active funds management of many of these market risks is delegated to the fund manager.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the 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 protection of capital, over at least the medium-term (i.e. periods over 3 years), is fundamental in supporting the long-term growth of the members' individual accounts. The value of securities, including equities and interest bearing assets, can go down as well as up. Members may not get back the amount invested.	
Environmental, Social and Corporate Governance risk		The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.	The management of ESG related risks is delegated to investment managers. The Trustees' responsible investment and corporate governance statement is contained in section 7 of this document.

Risk	Description	How is the risk monitored and managed?
Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustees regularly review performance of investment funds.
Liquidity risk	The risk that the members' investments do not provide the required level of liquidity and members are unable to realise their investments.	Members invest in a range of daily dealt pooled investment vehicles that facilitate the availability of assets to meet benefit outflows.
Pension Conversion risk	The purchasing power of members may fall relative to how they wish to take benefits at retirement or the risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustees make available a lifestyle strategy for DC members. Lifestyle strategies automatically switch member 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. Members are communicated with in the lead up to retirement reminding them of the need to assess their needs for retirement options.

The above items are in relation to what the Trustees consider 'financially material considerations' specifically related to the DC section. The Trustees have considered these risks when choosing the funds to make available to members. The Trustees believe that the investment strategy for the Defined Contribution Section of the Scheme is appropriate for meeting the risks outlined above.

The Trustees pay close regard to the risks which may arise from the lack of diversification of investments. The Trustees believe that the choice of funds in place provide an adequately diversified distribution of assets.

The Trustees recognise that many of these risks are inherent to investing and understands that the above list is not exhaustive.

6. Investment Strategy and Day-to-Day Management of the Assets

The Trustees delegate the day to day management of the Scheme's assets to a number of Investment Managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

DB Section

The day to day responsibility for the investment of the DB Section's assets rests with Legal & General Investment Management Limited ("L&G"), who are regulated by the Financial Conduct Authority (the "FCA").

The table below provides details of the overall investment strategy for the Scheme's DB Section.

Asset Class	Benchmark Index	Target Allocation[1] (%)
Fixed Interest Gilts – All Stocks	FTSE A Government (All Stocks)	10.60
Fixed Interest Gilts – Over 15 Years	FTSE A Government (Over 15 Years)	8.20
Corporate Bonds – All Stocks	Markit iBoxx Sterling Non-Gilt	10.10
Corporate Bonds – Over 10 Year	Markit iBoxx Sterling Non-Gilt Over 10 Year	16.50
Index-Linked Gilts – All Stocks	FTSE A Govt Index-Linked (All Stocks)	15.90
Index-Linked Gilts – Over 5 Years	FTSE A Govt Index-Linked Gilts (Over 5 Years)	6.10
Index-Linked Gilts – 5-15 Years	FTSE A Govt Index-Linked Gilts (5-15 Years)	32.50
Total		**100.00**

1 The target allocation is indicative, based on analysis carried out at the point that the strategy was implemented.

L&G manages the majority of the assets on a passive basis, whereby the objective is to achieve a level of performance (gross of fees) that falls within predetermined tolerance ranges of the respective benchmark returns in two out of three years. The performance objective of the Corporate Bond (All Stocks) Fund and Corporate Bond (10 Years) Fund are to outperform the benchmark by 0.75% p.a. (gross of fees) over rolling three year periods. These are the actively managed strategies in which the DB Section invests.

The Trustees regularly review the continuing suitability of the DB Section's investments, which may be adjusted from time to time.

DC Section

The Trustees have contracted with Aviva Life & Pensions UK Limited ("Aviva"), who are regulated by the FCA, to deliver DC investment management services.

The DC Section offers the following funds as investment options to its members.

Fund	Fund Manager	Management Basis	Benchmark
International	Baillie Gifford	Active	MSCI AC World ex UK
(60:40) Global Equity Index Tracker	BlackRock	Passive	Aviva BlackRock (60:40) Global Equity Index Tracker Benchmark
Managed	Baillie Gifford	Active	IA Mixed Investment 40% – 85% Shares

Fund	Fund Manager	Management Basis	Benchmark
Over 15 Year Corporate Bond Index Tracker	BlackRock	Passive	Markit iBoxx Sterling Non-Gilts – Over 15 Years
Index-Linked	Aviva	Active	FTSE Actuaries UK Index Linked All Stocks
Cash	Aviva	Active	LIBOR LIBID GBP 1 Week

In addition, the Trustees also offer a "lifestyling" arrangement under which members' assets are automatically switched from the (60:40) Global Equity Index Tracker Fund to the Over 15 Year Corporate Bond Index Tracker Fund, the Index Linked-Fund and the Cash Fund over the five years to retirement. The Trustees will review the fund range offered under the DC Section periodically to ensure its continued suitability.

AVCs

AVCs in respect of DC members are currently invested with Aviva. The options available to members are the same as for the DC Section.

There are also legacy AVCs invested with Scottish Widows, in connection with the DB Section. These include a with-profits fund and a range of unit-linked funds.

The Trustees will review the appropriateness of these arrangements from time to time.

7. Responsible Investment and Corporate Governance

Environmental, Social and Governance ("ESG") are defined as three central factors used by the capital markets in measuring the sustainability and ethical impact of a company's operations. The Trustees believe that good stewardship and ESG factors, though non-financial, may have a material impact on investment returns, 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 investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments. The investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise 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.

The Trustees monitor how ESG, climate change and stewardship is integrated within the investment processes adopted by its investment managers and considers these issues as part of the criteria when appointing new investment managers.

The Trustees will consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process (using their Investment Consultant's ESG ratings provided as part of regular reporting for the DB Section, and as part of the Scheme's annual Value for Members' ("VfM") assessment for the DC Section) and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. 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. A change in ESG rating does not mean that the fund will be removed or replaced automatically. The Trustees will ask the investment managers to comment on these areas when they present from time to time at Trustees' meetings.

The Trustees have not set any ESG related investment restrictions on the appointed investment managers, but may consider this in the future.

Non-financial considerations, including members' ethical views, are not taken into account in the selection, retention and realisation of investments.

8. Monitoring the Investment Managers, Advisers and Decision Making

Aligning Manager Appointments with Investment Strategy

The Investment Managers are appointed based on the strength of their capabilities and, therefore, the perceived likelihood of the managers achieving the expected return and risk characteristics required for the asset classes in which the Scheme invests.

The Trustees will seek guidance from their Investment Consultant, where appropriate, on their forward looking assessment of a manager's ability to deliver upon its stated objectives. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management (amongst other things), in relation to the particular investment strategies that the Scheme invests in. Where available, the consultant's manager research ratings assist with due diligence and decisions around selection, retention and realisation of manager appointments.

The Trustees will review an appointment if the investment objective for a manager's fund changes, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

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 can be selected to align with the overall investment strategy.

The Investment Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to review the appointment.

Evaluating Investment Manager Performance

The Trustees receive performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception (where applicable). The Trustees also review the 3 year performance of the DC assets on an annual basis as part of the VfM assessment. The Trustees review the absolute performance, relative performance against a suitable benchmark index and against the manager's stated target performance (over the relevant time period). The Trustees' focus is on long term performance. However, as noted above, they may review the appointment if:

- There are sustained periods of the manager failing to achieve its stated investment objectives.
- There is a change in the portfolio manager of a fund.
- There is a change in the underlying objectives of the investment manager.
- There is a significant change to the Investment Consultant's rating of the manager.

All of the appointed Investment Managers are remunerated by way of a fee calculated as a percentage of assets under management. In respect of the DC Assets, as part of the annual VfM assessment, the Trustees review the Investment Manager's fees.

Portfolio Turnover Costs

The Trustees do not currently actively monitor portfolio turnover costs for the DB Section. The investment managers' performance objectives are set net of turnover costs and therefore the managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask managers to report on portfolio turnover costs. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager's fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

In respect of the DC assets, the Trustees consider portfolio turnover costs as part of the annual VfM assessment.

Manager Turnover

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

All of the funds in which the Scheme invests (both DB and DC) are open-ended with no set end date for the arrangement. The Trustees will therefore retain an investment manager unless:

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

For the DC Section, the fund range and default are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range.

9. Realisation of Investments

The Scheme's Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The investment managers are responsible for generating any cash required to pay benefits and other expenditure on the instruction of the Trustees.

10. Fee Structures

The Investment Managers levy fees based on a percentage of the value of the assets under management.

The Scheme Actuary and the Investment Consultant typically work on the basis of time cost. However, in certain circumstances a fixed fee will be agreed.

11. Compliance with this Statement

The Trustees will monitor compliance with this Statement on a regular basis.

The Trustees will review this Statement no less frequently than triennially and without delay after any significant change in investment policy. They will also do so in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Principal Employer, which it judges to have a bearing on the Statement. Any such review will be based on written expert investment advice and the Principal Employer will be consulted.

The Trustees of the Barnes Group (UK) Limited Pension and Life Assurance Scheme

Approved:	**Doug McNeilly** **Trustee**	Date: **23 September 2020**
Approved:	**Keishaundra Harris** **Trustee**	Date: **23 September 2020**

Appendix - Statement of Investment Principles in respect of the Default Investment Option for the DC Section

1. Introduction

1.1 The Trustees of the Barnes Group (UK) Limited Pension and Assurance Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, relating to provision of information specific to the default option. This should be read in conjunction with the main Statement.

1.2 The default option covered by this Statement is:

- the 5 Year Lifestyle Programme.

2. Principles

2.1 The Trustees recognise that many members do not consider themselves to be comfortable enough to make their own investment decisions. The Trustees have provided a default option to cater for these members. Unless members make a specific request for their contributions to be invested in a different manner, they are invested in the default option

The default arrangement is the 5 Year Lifestyle Programme, which is provided by Aviva and has two phases: the accumulation phase and the consolidation phase.

- When a member is younger, their contributions are invested in funds that aim for long-term growth (accumulation phase) in excess of inflation.

- As the member approaches retirement, their savings are gradually switched into lower-risk, lower-growth funds (consolidation phase) that aim to provide greater stability by investing in assets that protect against the changing prices of annuities and support the withdrawal of tax free cash.

3. Default Arrangement

Objectives

3.1 The aims of the default arrangement and the ways in which the Trustees seek to achieve these aims are detailed below:

- To generate returns in excess of inflation during the accumulation phase of the strategy.

  The default arrangement's accumulation phase invests 100% of members' accounts in a fund comprised wholly of global equities (split 60% UK and 40% overseas), and this exposure is expected to provide long term growth in excess of inflation.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  The Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate to protect the level of savings built up as a fall in markets will have a greater impact on member outcomes at this stage.

  Moreover, as members approach retirement, the Trustees believe the primary aim should be to provide protection against a mismatch between asset values and the costs of buying annuities and providing a tax-free cash lump.

The 5 Year Lifestyle Programme *therefore aims to reduce volatility near retirement via automated switches over a 5-year period to a member's selected retirement date.*

Investments are gradually switched from a growth oriented fund (the Aviva BlackRock (60:40) Global Equity Index Tracker Fund), into lower risk funds (the Aviva BlackRock Over 15 Year Corporate Bond Index Tracker Fund, the Aviva Index Linked Fund and the Aviva Cash Fund).

- To provide exposure at retirement to assets that are broadly appropriate for an individual planning to use their savings in the Scheme to buy an annuity and to take a 25% tax-free cash lump sum at retirement.

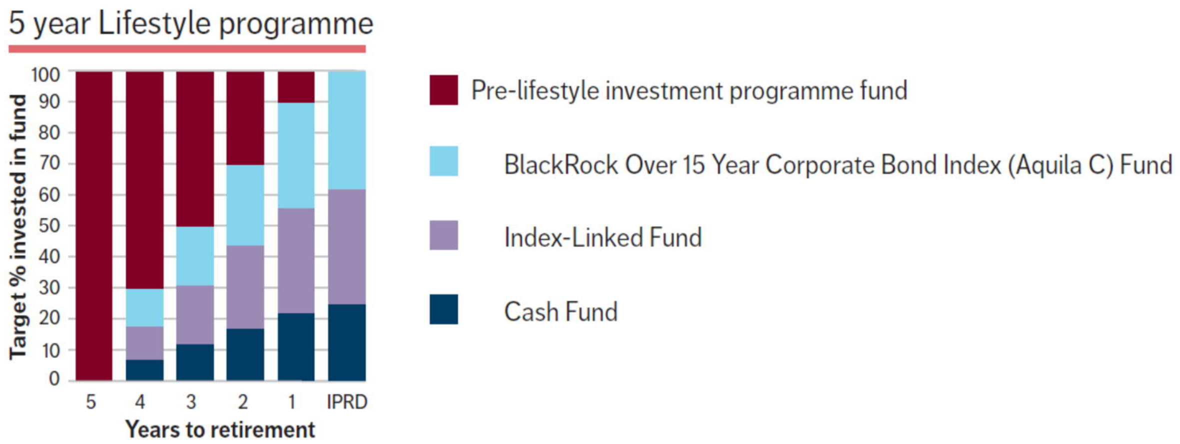
  At the member's selected retirement date, 75% of the member's assets will be invested in a combination of index linked gilt and corporate bond funds and 25% in a cash fund.

Policies in relation to the default arrangement

3.2 The Trustees' policies in relation to the default arrangement are:

- The default arrangement manages investment risks in the accumulation phase through a diversified allocation within equity markets, spread geographically across the main developed markets.
- In designing the default arrangement, the Trustees have considered the trade-off between expected risk and return. This policy is reviewed regularly to ensure that the design remains appropriate for members and reflects developments in the market.
- The Trustees have also taken into account the security, quality, liquidity and profitability of a member's portfolio as a whole in selecting the strategy.
- If members wish to, they can opt to choose their own investment options at any time from a set range provided by Aviva on their investment platform.
- The Trustees monitor performance of the components of the default, relative to objectives, albeit the Trustees will not provide advice to members on their individual choice of investment options.
- Assets in the default arrangement are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles, which are managed by BlackRock and Aviva, which are accessed via an investment platform provided by Aviva.
- The selection, retention and realisation of assets within the pooled funds are delegated to these managers in line with the mandates of the funds. They also have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

The structure of the default option is shown in the chart below:



4. Risk

In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members. In particular, when reviewing the investment strategy of the default investment option, the Trustees consider risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustees also consider risk in terms of the misalignment of investments with the retirement benefits targeted by the default investment option.

In arriving at their investment strategy for the default investment option the Trustees have considered investment risk from a number of perspectives. These are:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the investment return over members' working lives will not keep pace with inflation and do not secure adequate retirement benefits.	The default option has an explicit allocation to assets that are expected to outperform inflation over the long term.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	The strategy for the default option is set with the intention of diversifying these risks to reach a level of risk deemed appropriate. The default option is a lifestyle strategy which automatically and gradually reduces the level of investment risk members are exposed to as they approach retirement. The strategy is outsourced to Aviva.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Within active funds the management of many of these market risks is delegated by Aviva to the underlying investment manager.

Type of Risk	Risk	Description	How is the risk monitored and managed?
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit.	
Environmental, Social and Corporate Governance risk		The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return of the Scheme's assets.	Managed in line with the main Scheme, as set out in Section 5.
Investment Manager risk		The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	Managed in line with the main Scheme, as set out in Section 5.
Liquidity risk		The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	Managed in line with the main Scheme, as set out in Section 5.
Pension Conversion risk		The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The default option is a lifestyle strategy which automatically switches member assets into investments whose value is expected to be less volatile relative to the cost of purchasing an annuity as the member approaches retirement age. As part of the triennial default strategy review, the Trustees ensure the default destination remains appropriate.

The above items are in relation to what the Trustees consider 'financially material considerations' specifically related to the default option. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire. It is partly for this reason that the default investment option is a lifestyle strategy.

5. Suitability of the Default

5.1 Based on their understanding of the Scheme's membership, the Trustees believe that the above objectives and policies reflect members' best interests. The rationale underpinning this belief is as follows:

- The Trustees believe that most members save into a pension plan that will provide real long term growth and enable them to access a secure income in retirement. The targeting of an annuity purchase at retirement during the consolidation phase is aligned with that objective.

- The default arrangement is aimed largely at members who do not feel capable of taking investment decisions. Again, the Trustees believe that an annuity purchase which provides a secure income at retirement is likely to be the preferred course for many such members.

- Almost all members withdraw tax free cash at retirement. The allocation to the Aviva Cash Fund in the run-up to retirement within the default addresses that requirement.

- Whilst the Trustees believe the default to be suitable for the majority of members, they note that some members may wish to utilise other flexible options to take their benefits at retirement.

6. Responsible Investment and Corporate Governance

6.1 The Trustees believe that good stewardship and environmental, social and corporate governance ("ESG") issues may have a material impact on investment returns, 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.

6.2 The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments. The investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise 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.

6.3 The Trustees monitor how ESG, climate change and stewardship is integrated within the investment processes adopted by its investment managers and considers these issues as part of the criteria when appointing new investment managers.

6.4 Member views are not taken into account in the selection, retention and realisation of investments.

7. Review of this Statement

7.1 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 believe 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.