Statement of Investment Principles – The AQA Pension Scheme (April 2023)

Introduction

This document is the Statement of Investment Principles ('SIP') made by the Trustees of The AQA Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took written advice from the Scheme's fiduciary manager (the 'Fiduciary Manager', currently Towers Watson Limited) and consulted with AQA Education ('AQA', the 'Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

Section 1 – DB Scheme and FRI (FR) Section

Objectives

1 To acquire suitable assets of appropriate liquidity which will generate a total return to meet, together with new contributions from AQA, the cost of current and future benefits which the DB Scheme and FRI (FR) Section provide.

2 To limit the risk of the assets failing to meet the liabilities over both the long and the shorter-term, in particular in relation to the funding objectives of the Scheme and FRI (FR) Section as set out on the Statement of Funding Principles.

Investment strategy

3 The Trustees have received advice to determine an appropriate investment strategy for the DB Scheme. The FRI (FR) Section will be invested in line with the investment strategy for the DB Scheme.

4 The investment strategy makes use of two key types of investments:

- a range of instruments that provide a broad match to changes in liability values; and
- a diversified range of return-seeking assets.

5 The Trustees appointed an investment manager to manage the Scheme's assets on a discretionary basis and to provide advisory services to the Trustees (the "Fiduciary Manager"). The balance within and between these investments will be determined from time-to-time with regard to maximising the chance of achieving the Scheme's investment objective. The Fiduciary Manager's discretion is subject to guidelines set by the Trustees within its Fiduciary Management Agreement (the Agreement) with the Trustees dated 30 September 2015 and its subsequent amendments, the latest dated 11 January 2023. In exercising investment discretion, the Fiduciary Manager is required to act in accordance with its obligations in the Agreement, including the guidelines and any investment restrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in

this SIP. This ensures appropriate incentivisation and alignment of decision-making with the Trustees' overall objectives, strategy and policies.

6 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

7 The Trustees will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme Actuary, the appropriateness of its investment strategy.

8 The expected return of investments will be monitored regularly and will be directly related to the Scheme's investment objective.

9 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that, where possible, the realisation of assets will not disrupt the Scheme's overall investments. The Trustees, together with the Scheme's administrators and Fiduciary Manager, will ensure that there are sufficient cash and liquid assets to meet benefit and other payment obligations.

Investment managers

10 The Trustees have delegated investment manager selection, deselection and the ongoing management of relationships with asset managers to the Fiduciary Manager within Investment Guidelines set by the Trustees. The Trustees consider the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustees expect the Fiduciary Manager to ensure that the portfolio, in aggregate, is consistent with the policies set out in this statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). Where relevant to the mandate, the Trustees expect the Fiduciary Manager to:

a ensure that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustees' policies;

b use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement for segregated investments to ensure consistency with the Trustees' policies.

11 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

12 The Trustees and Fiduciary Manager are not involved in the investment managers day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to the investment managers of certain pooled funds appointed where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.

13 The Trustees expect the Fiduciary Manager to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the Trustees expect the Fiduciary

Manager to focus on longer-term outcomes, commensurate with the Trustees' position as a long term investor. Consistent with this view, the Trustees do not expect that the Fiduciary Manager would terminate a manager's appointment based purely on short term performance but recognises that a manager may be terminated within a short timeframe due to other factors such as a significant change in business structure or the investment team. The Trustees adopt the same long term focus as part of its ongoing oversight of the Fiduciary Manager.

14 For most of the Scheme's investments, the Trustees expect the Fiduciary Manager to appoint managers with a medium to long time horizon, consistent with the Scheme. In particular areas such as equity and credit, the Trustees expect the Fiduciary Manager to work with managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustees note that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustees expect that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

15 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Scheme's investment managers. However, the Trustees and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of factors including Environmental, Social and Governance (ESG) issues.

16 Consequently the Trustees (through the selection of the Fiduciary Manager and its associated approach to ESG issues, as set out in 18 and 19 below) seek to be an active long-term investor. The Trustees' focus is explicitly on financially material considerations over the time horizon for the funding of future AQA Pension Scheme benefits (i.e. potentially for decades subject to any buy-ins and buy-outs that may be entered into). The Trustees' policy at this time is not to take into account non-financially material or ethical considerations.

17 When considering its policy in relation to stewardship including engagement and voting, the Trustees expect investment managers to address broad ESG considerations. The Trustees assess that ESG risks and, in particular, climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustees' fiduciary duties and the financial security of its members. Whilst the Trustees' policy is to delegate a number of stewardship activities to the Fiduciary Manager and its investment managers, the Trustees recognise that the responsibility for these activities remains with the Trustees. The Trustees incorporate an assessment of how well the Fiduciary Manager and investment managers exercise these responsibilities as part of its overall assessment of their performance.

18 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. The Trustees expect the Fiduciary Manager to assess the alignment of the Scheme's underlying managers' approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf. The Trustees expect the Fiduciary Manager to engage with underlying managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. The Trustees expect and require the Fiduciary Manager to provide appropriate reporting to allow the Trustees to fulfil this requirement. In addition, the Trustees expect the Fiduciary Manager to review the managers' approach to sustainable investment (including engagement) on a regular basis and engage with the managers to encourage further alignment as appropriate.

19 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.

20 The Trustees believe that investors who are responsible owners support better outcomes for the companies they invest in and ultimately enhance their investments by using their rights as shareholders, influencing more sustainable corporate strategies, performance, risk management, capital structure, tax transparency and corporate governance, including culture, diversity and remuneration, potential conflicts of interest and social and environmental impact. Consistent with the Trustees' views, the Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment ("PRI") and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

21 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to its investment managers, who are better positioned to drive engagement initiatives, interacting with the companies in their portfolios and exercising voting rights and acting alongside other investors, investment managers and stakeholders, where appropriate. The Fiduciary Manager has also appointed EOS at Federated Hermes to undertake public policy engagement and company-level engagement on its behalf. EOS at Federated Hermes also assists the Trustees' underlying equity managers with voting recommendations.

22 The Trustees expect the Fiduciary Manager to consider the fee structures of asset managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustees expect the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees expect the Fiduciary Manager to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Other matters

23 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

24 The Trustees recognise a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager:

<u>Solvency risk and mismatch risk:</u>

- are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

Investment manager risk:

- is measured by the expected deviation of the prospective risk and return, as set out in the investment managers' objectives.
- is managed through: diversification across investment managers, ongoing monitoring of the performance of the investment managers and ongoing qualitative assessments of the investment managers by the Fiduciary Manager.

Liquidity risk:

- is measured by the level of cashflow required by the Scheme over various periods.
- is managed by the Fiduciary Manager assessing the Scheme's cashflow requirements in conjunction with the Scheme's administrators and ensuring that the Scheme's assets are sufficiently liquid.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by investing a proportion of the Scheme's assets in currency hedged pooled funds.

Custodial risk:

- is addressed through investment in pooled vehicles, with the investment managers responsible for selection of suitable custodians.

Political risk:

- is measured by the level of concentration in any one market.
- is managed by the Fiduciary Manager ensuring that the assets are suitably diversified.

Sponsor risk:

- is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments if required.
- is managed through an agreed contribution and funding schedule.

Signed: *Bruce Guthrie*

Name: Bruce Guthrie

Date: 6 April 2023

Authorised for and on behalf of the Trustees of the AQA Pension Scheme