Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustees of the Sun Life Assurance Company of Canada 1988 UK and Irish Employee Benefits Scheme ("the Scheme") in accordance with the Pensions Act 1995. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees have consulted with the Principal Employer to the Scheme ("Sun Life Assurance Company of Canada (UK) Limited") and have taken written advice from their investment adviser, Hymans Robertson LLP.

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefit basis.

The Trustees' funding objectives are set out in more detail in the Statement of Funding Principles.

Primary Funding Objective

The Trustees are required under Section 222 or the Pensions Act 2004 to adopt a "Statutory Funding Objective". The Statutory Funding Objective is the Trustees' primary funding objective.

The Statutory Funding Objective requires the Scheme's assets to be "sufficient and appropriate" in relation to the expected cost of providing members' past service benefits.

Sufficiency

To ensure the sufficiency of the Scheme's assets, the Trustees will seek contributions from the Principal Employer at such rates as they determine, on the advice of the Scheme Actuary, to be sufficient to meet the expected cost of the benefits payable from the Scheme.

To assess the expected cost of the benefits payable from the Scheme, the Trustees will obtain regular actuarial valuations of the Scheme from the Scheme Actuary. The Trustees will choose an appropriate funding method for the actuarial valuation, together with a prudent[1] set of actuarial assumptions. The Trustees will seek the advice of the Scheme Actuary before determining the method and assumptions.

If the actuarial valuation shows that the Scheme's assets are insufficient to meet the cost of members' past service benefits, the Trustees will put in place a recovery plan which will require additional contributions from the Principal Employer.

The Trustees will seek the agreement of the Principal Employer before deciding on the method and assumptions to be used in the actuarial valuation and before determining the level of Employer contributions payable to the Scheme. These funding positions are monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently, as required by the Pensions Act 2004.

Appropriateness

The policy for securing the appropriateness of the assets is set out in this Statement of Investment Principles.

Investment strategy

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark.

[1] In this context "prudent" means that, when taken as a whole, the actuarial assumptions are expected to have a better than 50% chance of being borne out over the long term.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), the level of disclosed surplus or deficit and the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk. The Trustees monitor the investment strategy relative to their agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following an actuarial valuation and will normally be reviewed annually. The Trustees consult with the Principal Employer in reviewing the Scheme investment strategy.

It is expected that the risk exposure will reduce in the long term as the liability profile of the Scheme matures and the funding level improves.

At the point of the latest actuarial valuation, the Scheme's funding level was above 100% on a gilts basis. As the Scheme aims to meet its long-term objective, this requires a return in excess of gilts to be generated. As such, the Trustees have put in place a debt strategy. In addition to generating the required excess returns, a key objective of the debt strategy is to meet cashflow requirements over the next 4-5 years. There are many ways of generating excess returns, however a debt strategy is best suited to delivering specific cashflows when required.

All day to day investment decisions have been delegated to Insight Investment ("Insight"). Insight is authorised under the Financial Services and Markets Act 2000. The Trustees non-insured strategic asset allocation has been translated into target allocations for Insight which are consistent with the overall strategy.

Investments with Insight are managed through pooled funds, under the terms of an Investment Management Agreement, relative to a bespoke asset allocation benchmark. The Trustees consider this approach to be appropriate.

To achieve their objectives the Trustees have agreed the following with their investment manager and insurers:-

Choosing Investments

The Scheme's assets consist assets managed by Insight Investment and insurance policies.

Assets invested with Insight

The Trustees, after seeking appropriate investment advice, have given Insight specific directions as to the asset allocation but delegated investment choice to them, subject to their respective benchmarks and asset guidelines.

Insight are expected to deliver investment returns which overall will align to deliver the broader Scheme investment strategy.

Insurance policies

The Scheme entered into an insurance policy designed to hedge a proportion of pensioner liabilities with Pension Insurance Corporation ("PIC") in 2018. PIC is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and PRA. The Trustees monitor PIC's solvency ratio, coverage and credit rating on a regular basis.

The Scheme entered into an insurance policy designed to hedge a proportion of deferred and pensioner liabilities with Rothesay Life ("Rothesay") in 2021. Rothesay is authorised by the PRA and regulated by the FCA and PRA. The Trustees monitor Rothesay Life's solvency ratio, coverage and credit rating on a regular basis.

The Scheme holds a small number of annuities where whole or partial Scheme benefits were insured by the Company. This includes a very small number of Maltese members where payment is made in Euros.

Given that the nature of these assets, they are not included in the allocation or performance benchmarking.

General principles

The Trustees ensure that all investment manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the investment manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set according to the total value of invested assets. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the investment manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a tiered fee structure based on the total value of invested assets. The Trustees periodically review the fees paid to its investment manager against industry standards. Those fees are set out in the Scheme's Investment Policy Implementation Document ("IPID").

The Trustees review the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability.

The Trustees recognise the short-term objective and appoints its investment manager to invest in such a way that generates sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the investment manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage with their investment manager on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

The Trustees review the performance of its investment manager and each chosen mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

The Trustees monitor their investment manager's performance against their respective benchmarks or targets on a quarterly basis over a short-term time horizon given the relative maturity of the Scheme. The Trustees challenge the investment manager on a quarterly basis and are expected to provide an explanation for any significant deviations away from benchmark or target.

Kinds of investment to be held

Insurance policies

The Scheme may enter into bulk insurance policies. Such a policy allows the Scheme to reduce the overall investment risk taken whilst safeguarding a proportion of liabilities.

Asset held with Insight

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including UK fixed interest gilts, UK index linked gilts, corporate bonds, overseas bonds, asset backed securities ("ABS"), cash and pooled funds which themselves invest in these underlying asset classes. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or reduction in risk. The Trustees consider all of these classes of investment to be suitable to the circumstances of the performance objectives.

Balance between different kinds of investments

The investment manager for the assets of the Scheme will hold a mix of investments which appropriately reflects its views relative to the benchmark. Within each major market the investment manager will maintain a diversified portfolio of securities.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustees measure and manage financial mismatch in two ways. As indicated above, the Trustees have set a strategic asset allocation benchmark for the Scheme. The Trustees assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustees also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to the Scheme liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations. To mitigate longevity risk the Trustees have entered into annuity insurance contracts with insurers in respect of a proportion of deferred and pensioner liabilities. All deferred and pensioners insured within those policies remain members of the Scheme and the Trustees continue to have ultimate responsibility for the payment of benefits to those members.

The Trustees seek to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Investment manager underperformance - The failure by the investment manager to achieve the rate of investment return assumed in setting their mandates.

- Environmental, Social and Governance ("ESG") risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees manage asset risks as follows. The Trustees provide a practical constraint on the Scheme's investments deviating greatly from the Trustees' intended approach by adopting a specific asset allocation benchmark and by agreeing benchmark asset allocations and tracking error requirements with their investment manager which the Trustees monitor.

The Trustees have invested across a range of assets with different levels of inherent liquidity. The Trustees monitor liquidity needs regularly and have an agreed plan in place to access underlying assets which may be difficult to realise quickly in certain circumstances.

The decision to appoint only one investment manager does involve some degree of risk (from potential underperformance of that investment manager) which the Trustees accepts as a reasonable compromise given the size of the portfolio. Different teams within the one investment manager are responsible for the running of different strategies of the Scheme's assets.

The Trustees hold annuity insurance policies, covering a proportion of deferred and pensioner liabilities to help manage and reduce these risks. In return for the payment of premiums, the Trustees hold annuity policies across three insurers. Under each policy, the insurer makes monthly payments to the Scheme and carry the risk of longevity for a subset of the pensioners, as well as the investment risks for this proportion of the Scheme's assets.

The Trustees do not expect their investment manager to take excess short-term risk and regularly monitor the investment manager's performance against the benchmarks and objectives set on a short and medium terms basis.

The Trustees' approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.

- Custody risk - The risk of loss of Scheme assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment manager as appropriate (e.g. custody risk in relation to pooled funds). When carrying out transitions, the Trustees seek professional advice.

Expected return on investments

Over the long term the overall level of investment returns, a combination of the performance of the strategic benchmark and the manager's performance relative to the benchmark, is expected to exceed the rate of return assumed by the Scheme Actuary in considering the funding of the Scheme.

Realisation of investments

The majority of securities held within the Scheme are quoted on the major capital markets or are readily traded and may be realised quickly if required.

Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the investment manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect the investment manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period.

The Trustees will challenge its investment manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the investment manager over the Scheme reporting year.

Consideration of financially material factors in investment arrangements

The Trustees recognise the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustees consider these to be financially material over the long-term. The Trustees also recognise the potential for these factors to impact asset pricing over the short to medium term. The Trustees recognise the long-term nature of the Scheme's obligations and consider the length of time that they consider investments will be held by the scheme. Depending on the asset class and circumstances of the Scheme, this could be short-term (5 years or less) or longer-term (over 5 years).

Strategic Considerations

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions are derived by our investment advisors at a broad market level to implicitly reflect all financially material factors. This includes ESG factors.

The Trustees discuss climate change with their investment adviser, investment manager and insurers to consider the potential implications for the Scheme's assets.

Structural Considerations

In an active mandate, the Trustees expect that their investment manager will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

In a passive mandate, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe the choice of benchmark will deliver appropriate risk adjusted returns. As the passive mandate is a liability driven investment portfolio, the benchmark is specific to the liabilities of the Scheme.

In selecting a new investment manager for the Scheme, appointing a current investment manager to manage a new mandate on behalf of the Scheme or agreeing a new insurance contract, where relevant the Trustees explicitly consider the approach to responsible investment and the extent to which ESG issues are integrated in the investment process as a factor in their decision making. The Trustees do this based on advice from their investment advisors.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Scheme, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with the investment manager and the monitoring of compliance with agreed policies.

Voting and Engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment manager are expected to exercise the voting rights attached to individual investments in accordance with their own house policy. The Trustees delegate monitoring of the investment manager's voting and engagement to the Investment Sub-Committee who take advice on this matter from the Scheme's investment advisors.

Where relevant, the Trustees have reviewed the voting policies of their investment manager and determined that these policies are appropriate.

Given the nature of assets held and overall maturity of the Scheme, it is unlikely for any assets owned that the investment manager will be required to vote on the Scheme's behalf.

Where appropriate, the Trustees will engage with and may seek further information from their investment manager on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but actively encourages their investment manager to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks.

Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the investment manager is responsible for investing in new issuance, the Trustees expect the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each investment manager has an appropriate conflicts of interest policy in place. The investment manager is required to disclose any potential or actual conflict of interest in writing to the Trustees.

Monitoring

The Trustees aim to meet with their investment manager and insurers on at least an annual basis. The Trustees provide their managers with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues. The investment manager and insurers are challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Signed and dated:

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Alison Creasy

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Alison Creasy

Trustee For and on behalf of Capital Cranfield Pension Trustees Limited

Name

Date 02-08-2024 | 09:08:31 BST

Version control

Version	Commentary	Date
1.0	Original Statement (Hymans' format)	January 2004
2.0	Update for addition of State Street Global Advisors as manager of the DB Section overseas equity assets and intention to introduce swap overlay on bond assets	May 2006
3.0	Regular update including requirements of Occupational Pension Schemes (Investment) Regulations 2005, recent manager allocation changes and completion of swap overlay programme on the bond portfolio	December 2007
4.0	Update for change of Credit Suisse's benchmark asset allocation	July 2008
5.0	Update for Aberdeen's purchase of interest in Credit Suisse's funds, change in DC funds and sale of property	August 2009
6.0	Update to reflect decision to temporarily invest cash from the sale of property units in index-linked gilts with SSgA	January 2010
7.0	Update to reflect 5% reduction in equities and temporary increase in allocation to index-linked gilts.	March 2010
8.0	Update to reflect transfer of assets to Insight and launch of new DC fund options.	October 2010
9.0	Amend target manager allocations from +/-2% to +/-5%	October 2011
10.0	Amendment to reflect de-risking	March 2013
11.0	Amendment to reflect transfer of State Street assets to Insight and the restructure of DB assets held with Insight.	November 2014
12.0	Amendment to reflect removal of the DC section and Active Bond Sub-Portfolio	August 2016
13.0	Amendment to reflect expanded Risk section, buy-in asset, hedging rebalance ranges and the Scheme's stance on ESG commitments within the portfolio	September 2018
14.0	Incorporation of the Scheme's commitments to fully addressing its responsibility over Responsible Investment of Scheme assets and ongoing and frequent monitoring of the investment manager in respect of RI and ESG. Removal of asset allocation and manager performance, fees and restrictions.	July 2019
15.0	Additional disclosures covering the Scheme's Manager Engagement Policy (in particular how their managers are incentivised to out-perform) and expanded Stewardship Policy (detailing the Trustees engagement with key stakeholders and where this has been delegated to the Scheme's investment managers). The insurance policies held by the Scheme have been drawn out and specific details provided regarding their suitability and usage.	June 2020
16.0	Amendment to reflect insured transaction with Rothesay Life.	March 2021
17.0	Amended to reflect removal of illiquid assets from portfolio.	October 2022
18.0	Amendments to reflect maturity of Scheme and current structuring of assets held	May 2024