Statement of Investment Principles

The Allen and Overy Pension Scheme -
Defined Contribution Section

Date: May 2022

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1 Introduction

The Allen & Overy Pension Scheme Details

1.1 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries and is both defined contribution and defined benefits in nature. This statement relates only to the defined contribution section of the Scheme.

1.2 The Scheme is registered for the purposes of Chapter 2 of Part 4 of the Finance Act 2004.

1.3 Administration of the Scheme is the responsibility of the Trustee, who are also responsible for the investment of the Scheme's assets in accordance with the choices made by members.

Pensions Act

1.4 Under Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pensions Act 2004), Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustee of the Allen & Overy Pension Scheme (‘the Scheme’).

1.5 The Trustee shall consult with the employer, Allen & Overy, on changes to the investment policy set out in this document. However, the ultimate power of responsibility for deciding investment policy lies with the Trustee.

1.6 Before preparing this document, the Trustee has obtained and considered written advice from the Scheme's investment consultants (Aon). This written advice considers the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

1.7 The Trustee will review this document, in consultation with the Scheme's investment consultants, at least every three years and without delay after any significant change in investment policy.

1.8 Before preparing this document, the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in their investment policy.

Financial Services and Markets Act 2000

1.9 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to the Scheme's appointed investment managers, which may include an insurance company or companies. The Scheme's investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

2 Division of Responsibilities

2.1 The Trustee has ultimate responsibility for decision making on investment matters. To ensure that such decisions are taken efficiently, the Trustee uses other bodies either through direct delegation or in an advisory capacity. The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively.

The Trustee also recognises that where it takes investment decisions (for example, when making changes to the lifestyle strategies or the self-select fund options) it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes. The roles of each group are shown below:

Trustee

2.2 The Scheme Trustee responsibilities include:

a. Reviewing periodically the content of this Statement and modifying it if deemed appropriate, in consultation with the Scheme's investment consultants.

b. Reviewing the suitability of funds made available to members.

c. Assessing the past performance of the available funds, by means of regular reviews, along with the forward-looking prospects in consultation with the Scheme’s investment consultants.

d. Considering the member borne charges and (where available) transaction costs applying on the funds and assessing whether these represent good value for members.

e. Reviewing periodically the appointment of the platform provider (Standard Life).

f. Appointing and monitoring the administrator and advisers of the Scheme.

g. Consulting with the employer before amending this Statement.

h. Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

Platform Provider

2.3 The Scheme's platform provider’s responsibilities include:

a. Providing the Trustee with quarterly statements of the assets and factsheets on the underlying funds.

b. Ensuring that the underlying funds are priced correctly.

Member

2.4 Each member of the Scheme has responsibility for selecting his/her investments from the funds made available by the Trustee and for monitoring their continued suitability to the member's personal circumstances.

Investment Consultant

2.5 The Scheme's investment consultant's responsibilities include:

a. Advising the Trustee, on:

- how any changes in the Scheme's investment managers' organisations or any other issues related to the investment managers could affect the interests of the Scheme.
- the continued suitability of the investment funds.
- the continued suitability of the platform provider.
- how any changes in the investment environment could either present opportunities or issues for the Scheme.

b. Undertaking project work as requested including:

- advising on the selection of new funds for the Scheme.
- providing information and data on member borne charges, including assessing the charges on the default arrangement against the charge cap, and (where available) transaction costs applying to the funds, to include in the annual Chairman's statement in the Trustee Report & Accounts.
- providing information and advice on the level of security afforded to the Scheme's assets, including the level of coverage from the Financial Services Compensation Scheme
- providing information, as relevant, on other investment issues pertinent to the Trustee.

c. Participating with the Trustee in periodic reviews of this Statement.

3 Objectives and Long-Term Policy

Objectives

3.1 The Trustee's objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth which, together with new contributions from members and the employer, will provide a fund with which to access benefits at retirement.

3.2 Members' investment needs change as they progress towards retirement age. Younger members, e.g. those with more than 10 years to retirement, have a greater need for real growth to attempt to ensure their investment accounts keep pace with inflation and, if possible, salary escalation. Younger members will also, all other things being equal, have a greater tolerance for volatility of returns, as they have a greater time to retirement in which markets may come back from any temporary low. Older members, e.g. those with 10 or less years to retirement, will in general require an increasing degree of stability in the level of benefit which may be accessed with their account at retirement.

3.3 Members also have different levels of risk tolerance, regardless of age, and differing levels and types of personal investments. Therefore, members should have the facility to reflect their own preferences in this regard, whilst maintaining a suitable spread of investments.

Risk

3.4 The Trustee have considered risk from a number of perspectives, including:

- The risk that the investment return over members' working lives does not keep pace with inflation – "inflation risk".
- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured – "conversion risk".
- The risk that members end up with insufficient funds at retirement with which to secure a reasonable income – "shortfall" or "opportunity cost" risk.
- The risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed – "manager risk".
- The risk of a fall in the value of the members' fund – "capital risk".

3.5 The funds offered through the Scheme have been chosen, in part, to help members mitigate these risks.

Policy

3.6 The Trustee policy is to seek to achieve the objectives through providing a suitable range of funds.

3.7 For those members who are willing to accept a greater level of volatility in pursuit of potentially achieving a higher value of their investment account, a range of passive and active equity funds, diversified growth funds and a property fund are available.

3.8 For those members who are less comfortable with higher volatility, there are a range of other asset classes available for investment including bonds, and money market funds.

3.9 All of the investment funds available trade daily and as such are readily realisable.

3.10 The investment managers or the Trustee will not borrow money or act as a guarantor for the purpose of providing liquidity (unless it is temporary).

3.11 In addition to this, the Trustee has put in place three open ‘lifecycle’ arrangements, designed for members targeting different forms of benefit at retirement. These are described in section 5.

4 Responsible Investment

Financially Material Considerations

4.1 In setting the Scheme’s investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance ("ESG") factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment consultants when setting the Scheme's investment strategy (including the default arrangement), when selecting managers and when monitoring their performance.

4.2 The Trustee further acknowledges that an understanding of financially material considerations, including ESG factors (such as climate change) and risks related to these factors, is necessary to allow them to discharge their fiduciary duties in a prudent manner.

The Trustee is taking the following steps to monitor and assess ESG-related risks and opportunities:

- The Trustee communicates the expectation to their investment managers that they should take into account ESG considerations in the selection, retention and realisation of investments.
- The Trustee will undertake periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme’s investment strategy.
- As part of ongoing monitoring of the Scheme’s investment managers, the Trustee will use ESG ratings information provided by their investment consultants, where relevant and available, to monitor the level of the Scheme’s investment managers' integration of ESG in their management of the funds available for investment through the Scheme.
- In fund selection exercises, ESG integration and stewardship quality will be a topic of explicit discussion between the Trustee, the advisers and prospective investment managers.
- The Trustee will include ESG-related risks, including climate change, on the Scheme’s risk register as part of ongoing risk assessment and monitoring.

Stewardship – Voting and Engagement

4.3 The Trustee invests in pooled funds through a platform provider, and as such have delegated responsibility for the selection, retention and realisation of investments to the Scheme's investment managers in whose funds they invest.

4.4 The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

4.5 As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee communicates these expectations to their investment managers.

4.6 The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and takes advice from its investment consultants with regards to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

4.7 The Trustee reviews the stewardship activities of its investment managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's investment managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

4.8 The Trustee will engage with its investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

4.9 The Trustee expects the Scheme's appointed investment managers to comply with the United Nations Global Compact and, additionally, the Trustee will identify key areas of concern (including, but not limited to, climate change risks) and will level scrutiny on its investment managers accordingly. It is the expectation of the Trustee that the Scheme's investment managers will prioritise and actively monitor for these risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

The transparency for voting should include voting actions and rationale with relevance to the Scheme.

The Trustee recognises that its collaborative behaviours can further work to mitigate the risks identified above, for the Scheme.

4.10 From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

4.11 In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

The underlying funds that make up the default arrangement and other self-select funds should not apply personal ethical or moral judgements as the basis for an investment decision.

The Trustee recognises the importance of offering a suitable range of investment options for members, and where applicable will seek to discuss any member feedback received, to inform decisions in relation to the default arrangement and range of funds.

5 Investment Manager Arrangements

Manager Structure

5.1 The Scheme has appointed a Platform Provider (Standard Life) through which they will access a number of pooled funds, managed by investment managers, all of whom are remunerated on an ad valorem basis.

5.2 The Trustee policy is to obtain advice on whether the range of pooled funds are satisfactory, as required by the Pensions Act at least every three years.

5.3 The investment managers are responsible for having regard to the need for the diversification of investments so far as is appropriate and also to the suitability of investments.

5.4 The investment managers, at their discretion, but within guidelines set out in the respective funds' prospectus, are responsible for implementing changes in the asset mix and selecting securities within each asset class.

Arrangements with Investment Managers

5.5 Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

5.6 The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

5.7 There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

5.8 The Trustee believes they have a duty as institutional investors to invest in a responsible manner and where appropriate will query managers on the rationale for holding positions in companies who contribute significant negative externalities to society, regardless of whether the action may be financially material.

Performance Objectives

5.9 Whilst the Trustee is not involved in the pooled funds' day to day method of operation and therefore cannot directly influence the performance target, they will assess performance and review the managers included on the Platform on a periodic basis. The benchmarks and objectives of each fund are provided in the table below:

Fund	Benchmark	Objective
SL LF LionTrust UK Equity Fund	FTSE All-Share Index	The Fund aims to produce a total return in excess of the FTSE All-Share Index over the long-term through investment in a diversified portfolio, with at least 80% of the Fund invested in UK equities.
SL Vanguard FTSE UK All Share Index Pension Fund	FTSE All-Share Index	To track its benchmark within reasonable tolerance ranges.
SL Veritas Global Focus Pension Fund	MSCI World Index	To achieve returns of OECD G7 inflation plus 6% p.a.
Standard Life Global Equity 50:50 Tracker Pension Fund	50% FTSE All-Share Index; 50% MSCI World ex UK Index	To track its benchmark within reasonable tolerance ranges.
Standard Life Overseas Tracker Pension Fund	MSCI World ex UK Index	To track its benchmark within reasonable tolerance ranges.
SL Vanguard Emerging Markets Stock Index Pension Fund	MSCI Emerging Markets Index	To track its benchmark within reasonable tolerance ranges.
SL Schroder Intermediated Diversified Growth Pension Fund	CPI + 5% p.a.	To achieve CPI + 5% p.a. over full market cycles, typically considered as rolling five to seven-year periods (net of fees)
SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund	CPI +4% p.a.	To achieve CPI + 4% p.a. over full market cycles, typically considered as rolling five year periods

Fund	Benchmark	Objective
Standard Life Pooled Property Pension Fund (closed to new investments)	IPD UK PPFI All Balanced Funds Median	To outperform its benchmark by 1.0% p.a.
SL ASI Global Real Estate Institutional Pension Fund	N/A	To achieve a return of 5% p.a. over rolling three year periods.
Standard Life Index Linked Bond Pension Fund	FTSE British Government Index-Linked Over 5 Years Index	To outperform its benchmark by 0.3% p.a.
Standard Life UK Fixed Interest 60:40 Pension Fund	60% Merrill Lynch Sterling UK Non-Gilt All Stocks Index; 40% FTSE British Government Over 15 Years Index	To outperform its benchmark by 0.5% p.a.
SL Vanguard UK Investment Grade Bond Index Pension Fund	Barclays Global Aggregate UK Non-Government Float Adjusted Bond Index	To track its benchmark within reasonable tolerance ranges.
Standard Life Corporate Bond Pension Fund	ABI (Pension) Sterling Corporate Bond Sector	To outperform its benchmark by 0.80% over a 3-year period
Standard Life Deposit and Treasury Pension Fund	Sterling Overnight Interbank Average Index (SONIA)	To provide returns in line with short-term money market rates.

5.10 The investment managers should achieve the principal objective in the majority of three-year periods under consideration, with the exception of the SL Veritas Global Focus Pension Fund which aims to achieve its performance objective over a three to five year period as well as the SL Schroder Intermediated Diversified Growth Pension Fund and SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund which both aim to achieve their performance objectives over rolling five year periods.

It is not necessarily expected that active managers will achieve the targets in every three-year period. However, they should demonstrate that the skills exercised on the funds are consistent with these targets, and that the level of risk is appropriate. The investment managers will exercise their powers of discretion in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

5.11 While the investment managers may use derivative instruments within their pooled funds, the Trustee will not invest in derivative instruments except to contribute to a reduction of risks or facilitate efficient portfolio management.

Lifecycle strategies

5.12 In addition to the individual funds listed above, the Scheme makes available three lifecycle strategies: a Multi-Asset Lifecycle, an Annuity Lifecycle and a Cash Lifecycle. The default lifecycle strategy is the Multi Asset Lifecycle and is designed to be suitable for those not wishing to take investment decisions themselves whilst providing maximum flexibility at retirement for members to take benefits as they choose.

5.13 Each strategy consists of an accumulation phase, a transition phase (beginning 15 years from a member's planned retirement age) and a pre-retirement phase (beginning five years from a member's planned retirement age).

5.14 The accumulation phase is identical in each lifecycle strategy and is exclusively invested in equity funds, namely: 95% in the SL Overseas Tracker Pension Fund and 5% in the SL Vanguard FTSE UK All Share Index Pension Fund.

5.15 The transition phase is also identical in each strategy. The transition phase is designed to move from high growth to lower but more stable growth in the run-up to retirement. A portion of funds is gradually switched to bond and Diversified Growth Fund investments such that, when a member is five years away from their planned retirement age, their investments will be split broadly as follows:

- 31% in the Standard Life Overseas Tracker Pension Fund
- 2% in the SL Vanguard FTSE UK All Share Index Pension Fund
- 11% in the SL Schroder Intermediated Diversified Growth Pension Fund
- 11% in the SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund
- 33% in the Standard Life Corporate Bond Pension Fund
- 13% in the Standard Life Index Linked Bond Pension Fund

5.16 The pre-retirement phase for the Multi-Asset Lifecycle strategy continues to invest in the same funds as the transition phase, but with a further gradual reduction in risk level. By the time a member reaches their planned retirement age their investments will be split broadly as follows:

- 26% in the Standard Life Overseas Tracker Pension Fund

- 1% in the SL Vanguard FTSE UK All Share Index Pension Fund
- 9% in the SL Schroder Intermediated Diversified Growth Pension Fund
- 9% in the SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund
- 35% in the Standard Life Corporate Bond Pension Fund
- 20% in the Standard Life Index Linked Bond Pension Fund

The Multi-Asset Lifecycle strategy has been designed for members who wish to retain flexibility in the form in which they take their benefits at retirement, for example by transferring to a flexible income drawdown product.

5.17 The pre-retirement phase for the Annuity Lifecycle strategy gradually switches out of the funds used in the accumulation and transition phases, and into mixed bonds and money market funds. By the time a member reaches their planned retirement age the investments will be split 75% in the Standard Life Index Linked Bond Pension Fund and 25% in the Standard Life Deposit and Treasury Pension Fund.

The Annuity Lifecycle strategy has been designed to be suitable for members who take the maximum 25% tax-free cash at retirement and purchase an annuity with the remainder of their account.

5.18 The pre-retirement phase for the Cash Lifecycle strategy gradually switches out of the funds used in the accumulation and transition phases, and into money market funds. By the time a member reaches their planned retirement age the investments will be 100% invested in the Standard Life Deposit and Treasury Fund.

The Cash Lifecycle strategy has been designed to be suitable for members who wish to take the whole of their account as a cash lump sum at retirement.

5.19 Switching takes place linearly on a monthly basis.

6 Monitoring and Implementation

Monitoring

6.1 The appointment of the platform provider will be reviewed by the Trustee from time to time. In addition, the Trustee will review the performance of each of the funds by means of a quarterly report produced by the Scheme's platform provider and quarterly investment monitoring reports provided by the Scheme's investment consultants.

6.2 Funds may be replaced, for example, if:

a. They fail to meet the performance objectives set out in Section 5; and/or

b. The Trustee believes that the manager is not capable of achieving the performance objectives in the future. In this respect, they will look for advice from the Scheme's investment consultants.

6.3 Under the Scheme's rules, the Trustee may replace a fund, including transferring existing investments, without prior agreement or consultation with members if they believe this is appropriate.

6.4 The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultants.

6.5 The Trustee receives quarterly reports and verbal updates from the investment consultants on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the investment managers over 3-year periods.

6.6 The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

6.7 The Trustee shares the policies, as set out in this SIP, with the Scheme's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

Cost Transparency

6.8 The Trustee is aware of the importance of monitoring its investment managers' total costs and the impact these costs can have on the overall value of members' funds. It is the Trustee's view that long term performance, net of fees, is the most important metric on which to evaluate its investment managers.

6.9 The Trustee therefore believes it is important to understand all the different costs and charges, which are paid by members (through a deduction from the unit price). These include:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER');
- implicit charges, such as the portfolio turnover costs (transaction costs) borne within a fund. The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.

6.10 Other costs of providing DC benefits (e.g. administration, communication, and adviser costs) are not charged to members.

6.11 The Trustee collects information on these member-borne costs and charges on an annual basis and sets these out in the Scheme's annual Chair's Statement which is made available to members in a publicly accessible location.

6.12 The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends.

6.13 No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects its investment consultants to highlight if these costs and charges appear unreasonable when they are collected as part of the annual Chair's Statement exercise and investigate as required.

6.14 The Trustee assesses value for money received by members from the Scheme, including its investment managers, on a regular basis as part of the annual Chair's Statement exercise.

7 Risk Management

7.1 In addition to the investment risks outlined in section 3.4, the Trustee recognises a number of other risks involved in the investment of the assets of the Scheme:

- Mismatching risk – addressed through the provision of a range of funds with differing risk characteristics.
- Inappropriate investments – addressed through obtaining advice on the suitability of the funds used.
- Security of assets risk – addressed through obtaining advice on the level of security of the Scheme's assets, in relation to both the platform provider and the underlying funds. This advice includes an assessment of the circumstances when the Trustee may be eligible to make a claim under the Financial Services Compensation Scheme. Similar advice is provided whenever new funds are selected.

7.2 The Trustee continues to monitor these risks. The Trustee also maintains a Risk Register to consider a broad spectrum of possible risks and suitable mitigation strategies.

8 Default Arrangements

Primary Default Option

8.1 The Trustee is required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustee has designated the Multi-Asset Lifecycle strategy (outlined in the section 5) as the default arrangement for the Scheme.

8.2 The Multi-Asset Lifecycle strategy has been constructed following analysis of the membership of the Scheme. This analysis took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of member in order to test alternative investment strategies. The design of the Multi-Asset Lifecycle strategy reflects this analysis, having carried out multiple simulations of future economic and investment scenarios, and also taking into account the various options that members will have regarding the way in which they draw their benefits in retirement.

8.3 The aim of the Multi-Asset Lifecycle strategy is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings though exposure to equity funds and then to gradually diversify their investments in the years approaching retirement to reduce volatility and provide a broad base of assets from which members can choose the type of benefits they wish to take.

8.4 The asset allocation throughout the Multi-Asset Lifecycle strategy and the phasing of the gradual switching of investments takes into account members' greater capacity for risk early on and reduced capacity for risk in later years.

8.5 The outcomes of the Multi-Asset Lifecycle strategy will be reviewed periodically with reference to the manner in which members take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

Secondary Default Option

8.6 A second default arrangement was created in April 2020 when trading in the Standard Life Pension Property Fund was suspended and it ceased accepting new contributions, as a result of the Covid-19 pandemic. This fund is only available to members as a self-select option.

Rather than leaving future contributions intended for the Property Fund uninvested, the Trustee decided to redirect these contributions into the Standard Life Deposit and Treasury Fund, until the suspension of the Property Fund was lifted.

As a result of such action, the Standard Life Deposit and Treasury Fund is classified as a default investment option for regulatory reporting and monitoring purposes.

8.7 The Trustee would have preferred to map the affected contributions to the Multi-Asset Lifecycle strategy (the primary default option), as this would allow members who had selected the Property Fund to retain similar growth potential for their affected contributions. However, members can only choose to be invested in a Lifecycle strategy **or** in a selection of self-select options, not a combination of both and therefore, the Trustee chose the Standard Life Deposit and Treasury Fund for affected contributions. At that time, the Trustee considered the Standard Life Deposit and Treasury Fund to be the most appropriate investment option in which to temporarily redirect the contributions intended for the Property Fund.

The Standard Life Deposit and Treasury Fund has historically experienced low levels of volatility and the Trustee understands it is most likely best placed to protect the value of these contributions from the funds available, on a short-term basis. The Trustee believes this course of action to be in the best interests of members.

It was also recognised that the Standard Life Deposit and Treasury Fund offers a relatively low member charge of 0.16% p.a. at the time of writing.

8.8 The Trustee's policies in relation to the default arrangements in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out in the previous sections.

Jeremy Parr

Chair of Trustee

12 May 2022

Date

On behalf of the Trustee of the Allen & Overy Pension Scheme