

# Statement of Investment Principles

**The A&O Shearman Pension Scheme -  
Defined Contribution Section**

***Date: March 2025***

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## A&O Shearman Pension Scheme – Defined Contribution Section

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# 1 Introduction

## **The A&O Shearman Pension Scheme ('the 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 is 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 Scheme.
- 1.5 The Trustee will consult with the employer, A&O Shearman, 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 Investments Limited '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 lifecycle 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 provider (Fidelity).
  - f. Appointing and monitoring the 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.

### **Provider**

- 2.3 The Scheme's provider's investment 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.
  - c. Operating the lifecycle strategies correctly

### **Member**

- 2.4 Each member of the Scheme has responsibility for selecting their investments from the funds made available by the Trustee and for monitoring their continued suitability for 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 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 Chair'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 build up a fund for each member to provide 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 has 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”.
  - 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 – “ESG risk” (covered in more depth in section 4).
- 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 and a diversified growth 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 Neither the investment managers nor the Trustee will 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 the 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 its 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 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. However, 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.

# 5

## Investment Manager Arrangements

### **Manager Structure**

- 5.1 The Scheme has appointed a Provider (Fidelity) 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 and if necessary, 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 underlying managers of funds on a periodic basis. The benchmarks and objectives of each fund are provided in the table below:

# Investment Manager Arrangements

Fund	Underlying Funds	Benchmark	Objective
A&O Shearman Global Growth Fund	BlackRock ACS World ESG Equity Tracker	MSCI World ESG Focus Low Carbon Screened Index	This fund invests in one or more underlying funds utilising a mix of active and passive management styles, with the aim of achieving long term capital growth. The underlying funds invest in global equities, including in emerging market equities. The fund has the potential to invest in other asset types that are expected to achieve returns in line with, or above global equities. In order to reduce exposure to the effect of changes in exchange rates between Sterling and other global currencies, some overseas equity exposure (excluding emerging markets) may be hedged back to Sterling. Approximately 90% of the fund and underlying benchmarks explicitly integrate Environmental, Social and Governance (“ESG”) considerations into the selection of underlying investments
	State Street Multi Factor Global ESG Equity Fund	MSCI World Select 5-Factor ESG Low Carbon Target Index	
	Loomis Sayles Global Emerging Markets Fund	MSCI EM Gross Total Return Index	
A&O Shearman Growth Fund	BlackRock ACS World ESG Equity Tracker	MSCI World ESG Focus Low Carbon Screened Index	This fund invests in one or more underlying funds utilising a mix of active and passive management styles, with the aim of achieving long term capital growth. The underlying funds invest in global equities, including in emerging market equities. The fund has the potential to invest in other asset types that are expected to achieve returns in line with, or above global equities. In order to reduce exposure to the effect of changes in exchange rates between Sterling and other global currencies, some overseas equity exposure (excluding emerging markets) may be hedged back to Sterling. Approximately 90% of the fund and underlying benchmarks explicitly integrate Environmental, Social and Governance (“ESG”) considerations into the selection of underlying investments
	State Street Multi Factor Global ESG Equity Fund	MSCI World Select 5-Factor ESG Low Carbon Target Index	
	Loomis Sayles Global Emerging Markets Fund	MSCI EM Gross Total Return Index	
A&O Shearman Active Global Equity Fund	Nikko AM Global Equity Fund	MSCI ACWI-ND	This fund invests in one or more actively managed underlying funds, with the aim of achieving long term capital growth. The underlying funds invest in global equities, including emerging market equities.
A&O Shearman Passive Global Equity Fund	BlackRock ACS World ESG Equity Tracker Fund	MSCI World ESG Focus Low Carbon Screened Index	This fund invests in one or more passively managed underlying funds, with the aim of achieving returns broadly in line with the fund benchmark. The underlying funds invest in global developed market equities. The fund and benchmark integrate Environmental, Social and Governance (“ESG”) considerations into their stock selection criteria.

A&O Shearman Passive UK Equity Fund	BlackRock ACS UK Equity Fund	FTSE All-Share Custom ESG Screened Index	This fund invests in one or more passively managed underlying funds, with the aim of achieving returns broadly in line with the fund benchmark. The underlying funds invest in UK Equities.
A&O Shearman Active Emerging Markets Fund	Loomis Sayles Global Emerging Markets Fund	MSCI EM Gross Total Return Index	This fund invests in one or more underlying actively managed funds, with the aim of achieving long term capital growth. The underlying funds invest in global emerging market equities.
A&O Shearman ESG Impact Equity Fund	RBC Global Equity Focus Fund	MCSI ACW (net total return) GBP hedged Index	<p>This fund has two key objectives:</p> <ol style="list-style-type: none"> <li>1. Long term capital growth</li> <li>2. Generating wider, measurable, social and/or environmental impact.</li> </ol> <p>To achieve these goals, the fund invests in one or more actively managed underlying funds. The underlying funds invest in global equities, which may include emerging market equities</p>
A&O Shearman Shariah Equity Fund	HSBC Islamic Global Equity Index Fund	Dow Jones Islamic Market Titans 100 Index	This fund invests in one or more passively managed underlying funds, with the aim of achieving returns broadly in line with the fund benchmark. The underlying funds invest in global equities. The fund will only invest in underlying funds that invest in shares of companies that meet Shariah compliance principles as interpreted or approved by a Shariah Committee.
A&O Shearman Multi-Asset Fund	State Street Dynamic Diversified Growth Fund	SONIA Overnight Index	This fund invests in one or more underlying funds utilising a mix of active and passive management styles, with the aim of achieving long term capital growth, but with lower expected volatility, and consequently lower expected returns, than is typical with investing in equities. The underlying funds may invest in a range of asset classes including equities, bonds, property, commodities, hedge funds, derivatives and global cash/currencies.
	BlackRock Market Advantage Fund	3 Month SONIA plus 3.5%	
	JP Morgan Flexible Credit Strategy	Benchmark agnostic (performance assessed against cash-plus target)	

A&O Shearman Transition Fund	State Street Dynamic Diversified Growth Fund	SONIA Overnight Index	This fund invests in one or more underlying funds utilising a mix of active and passive management styles, with the aim of achieving long term capital growth, but with lower expected volatility, and consequently lower expected returns, than is typical with investing in equities. The underlying funds may invest in a range of asset classes including equities, bonds, property, commodities, hedge funds, derivatives and global cash/currencies
	BlackRock Market Advantage Fund	3 Month SONIA plus 3.5%	
	JP Morgan Flexible Credit Strategy	Benchmark agnostic (performance assessed against cash-plus target)	
A&O Shearman Global Bond Fund	BlackRock Absolute Return Bond Fund	SONIA	This fund invests in one or more underlying funds, utilising a mix of active and passive management styles, with the aim of achieving long term capital growth, but with lower expected volatility, and consequently lower expected returns, than is typical with investing in equities. The underlying funds invest in a range of bond assets including global corporate bonds, global government bonds (both fixed interest and index linked) and cash/money market instruments.
	Robeco Global SDG Credits Fund	Bloomberg Global Aggregate Corporates Index	
	JP Morgan Flexible Credit Strategy	Benchmark agnostic (performance assessed against cash-plus target)	
	BlackRock Aquila Connect up to 5Yr Index Linked Fund	FTSE Actuaries UK Index Linked Gilts up to 5 Years Index	
	Aquila Connect Sterling Liquid Environmentally Aware Fund	SONIA	



A&O Shearman Consolidation Fund	BlackRock Absolute Return Bond Fund	SONIA	This fund invests in one or more underlying funds, utilising a mix of active and passive management styles, with the aim of achieving long term capital growth, but with lower expected volatility, and consequently lower expected returns, than is typical with investing in equities. The underlying funds invest in a range of bond assets including global corporate bonds, global government bonds (both fixed interest and index linked) and cash/money market instruments.
	Robeco Global SDG Credits Fund	Bloomberg Global Aggregate Corporates Index	
	JP Morgan Flexible Credit Strategy	Benchmark agnostic (performance assessed against cash-plus target)	
	BlackRock Aquila Connect up to 5Yr Index Linked Fund	FTSE Actuaries UK Index Linked Gilts up to 5 Years Index	
	Aquila Connect Sterling Liquid Environmentally Aware Fund	SONIA	
A&O Shearman Gilt Fund	BlackRock iShares UK Gilts All Stocks Index Fund	FTSE Actuaries UK Conventional Gilts All Stocks Index	This fund invests in one or more passively managed underlying funds, with the aim of achieving returns broadly in line with the fund benchmark. The underlying funds invest in fixed interest UK government bonds.
A&O Shearman Index-Linked Gilt Fund	BlackRock Aquila Connect up to 5Yr Index Linked Fund	FTSE Actuaries UK Index Linked Gilts up to 5 Years Index	This fund invests in one or more passively managed underlying funds, with the aim of achieving returns broadly in line with the fund benchmark. The underlying funds invest in index linked UK government bonds.
A&O Shearman Annuity Fund	L&G Future World Annuity Aware Fund	FTSE Annuities Index	This fund invests in one or more underlying funds, which may be actively or passively managed, with the aim of tracking changes in the price of a typical non inflation linked pension annuity. The underlying funds may invest in a range of corporate and UK government bonds.

A&O Shearman Shariah Fixed Income Fund	HSBC Global Sukuk Fund	FTSE IdealRatings Sukuk Index (total return)	This fund invests in one or more passively managed underlying funds, with the aim of achieving returns broadly in line with the fund benchmark. The underlying funds invest in Sukuk (Shariah compliant fixed interest assets). The fund will only invest in underlying funds that invest in Sukuk of companies that meet Shariah compliance principles as interpreted or approved by a Shariah Committee.
A&O Shearman Cash Fund	Aquila Connect Sterling Liquid Environmentally Aware Fund	SONIA	This fund invests in one or more underlying funds, with the aim of achieving a return in line with money market rates. The underlying funds investing in sterling denominated cash, deposits and money market instruments. There is no guarantee the fund will achieve its aims and the value of the investments may fluctuate.

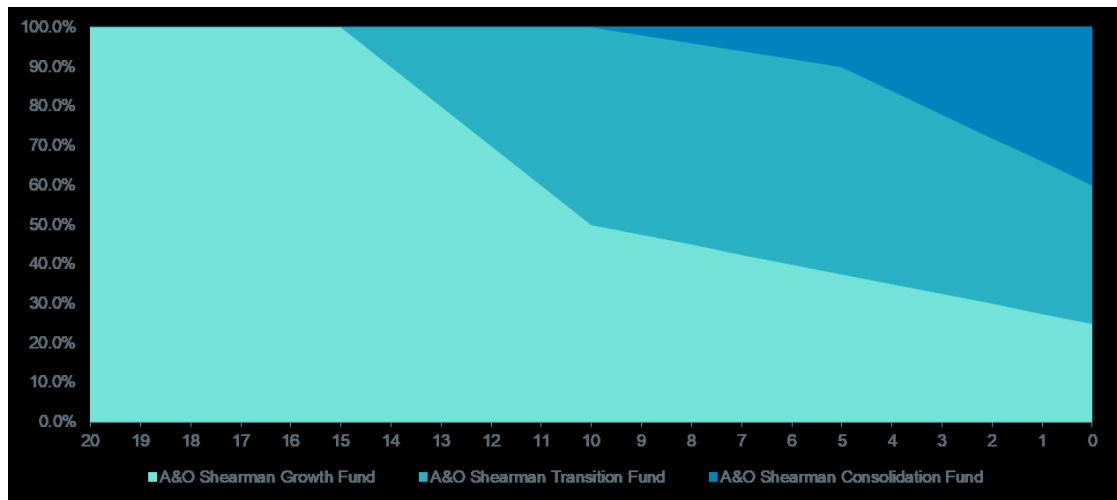
- 5.10 The investment managers will exercise their powers of discretion in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Relative performance of managers will be measured over appropriate time horizons. Active managers are not necessarily expected to achieve performance targets in every assessment 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.

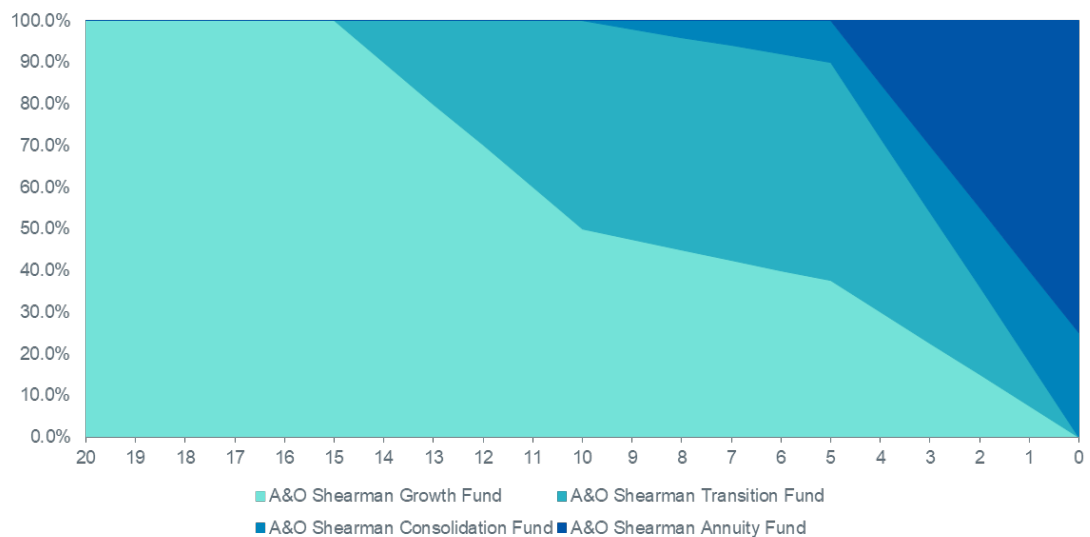
- 5.11 While the investment managers may use derivative instruments within their pooled funds, the Trustee will not invest in derivative instruments except to contribute to a reduction of risks or facilitate efficient portfolio management.

#### **Lifecycle strategies**

- 5.12 In addition to the individual funds listed above, the Scheme makes available three lifecycle strategies: a Drawdown Targeting Lifecycle, an Annuity Targeting Lifecycle and a Cash Targeting Lifecycle. The default lifecycle strategy is the Drawdown Targeting Lifecycle and is designed to provide maximum flexibility at retirement for members to take benefits as they choose as well as to be suitable for those members who do not make an investment decision, who will be automatically invested in this strategy..
- 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 10 years from a member's planned retirement age).
- 5.14 The default strategy is made up of 3 funds: the A&O Shearman Growth Fund, the A&O Shearman Transition Fund and the A&O Shearman Consolidation Fund. The members' fund initially invested in the A&O Shearman Growth Fund before the investments are gradually moved into A&O Shearman Transition Fund and A&O Shearman Consolidation Fund as illustrated in the chart below.

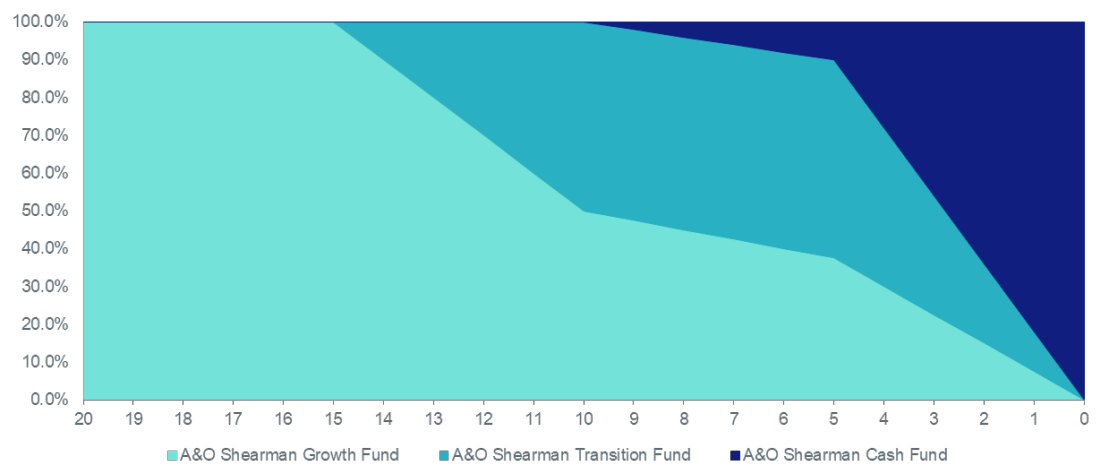


- 5.15 The Annuity Targeting Lifecycle strategy is made up of 4 funds: the A&O Shearman Growth Fund, the A&O Shearman Transition Fund, the A&O Shearman Consolidation Fund and the A&O Shearman Annuity Fund. The structure of the Annuity Lifecycle strategy is illustrated in the chart below.



The Annuity Targeting Lifecycle strategy has been designed to be suitable for members who aim to purchase an annuity at retirement.

- 5.16 The Cash Targeting Lifecycle strategy is made up of 3 funds: the A&O Shearman Growth Fund, the A&O Shearman Transition Fund and the A&O Shearman Cash Fund. By the time a member reaches their planned retirement age the investments will be 100% invested in A&O Shearman Cash Fund. The structure of the Cash Targeting Lifecycle strategy is illustrated in the chart below.



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.

- 5.17 Within all three lifecycle strategies, switching takes place linearly on a quarterly basis.

# Illiquid Investments Policy

## **The default arrangement**

- 6.1 Whilst the Trustee does not invest in illiquid assets directly, the Trustee invests in multi-asset funds, namely the A&O Shearman Consolidation Fund and the A&O Shearman Transition Fund, within the default arrangement (the Drawdown Targeting Lifecycle).
- 6.2 The above-referenced multi-asset funds are introduced in the de-risking phase of the Drawdown Targeting Lifestyle and are therefore only held by members in the default arrangement who are within 15 years of their selected retirement date.
- 6.3 The Trustee expects the vast majority of the multi-asset funds' underlying holdings to be liquid, but on occasion the underlying investment managers may allocate to underlying illiquid investments, such as private equity, real estate and infrastructure. The Trustee is comfortable that the underlying investment managers are best placed to use their discretion as to the appropriateness of holding illiquid investments in the underlying funds at any particular time, and to use the liquid portions within each underlying fund to ensure members have sufficient access to liquidity. Overall, each underlying fund is still expected to provide full daily liquidity.
- 6.4 Whilst the Trustee recognises that illiquid investments may be associated with higher costs and liquidity risks, it believes that access to an illiquidity premium and enhanced diversification may be beneficial to members in the long-term.

# 7

## Monitoring and Implementation

### Monitoring

- 7.1 The appointment of the 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 provider and quarterly investment monitoring reports provided by the Scheme's investment consultants.
- 7.2 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, it will look for advice from the Scheme's investment consultants.
- 7.3 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.
- 7.4 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 consultant.
- 7.5 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.
- 7.6 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.
- 7.7 The Trustee shares the policies, as set out in this SIP, with the Scheme's investment managers, and requests that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

### **Cost Transparency**

- 7.8 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.
- 7.9 The Trustee therefore believes it is important to understand all the different costs and charges which are paid by members (through an adjustment to the unit price). These include:
- explicit charges, such as the annual management charge, and additional expenses that are disclosed by the provider 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.
- 7.10 Other costs of providing DC benefits (e.g. communication, and adviser costs) are not charged to members.
- 7.11 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.
- 7.12 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.
- 7.13 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.
- 7.14 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.



# 8 Risk Management

- 8.1 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 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.
- 8.2 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.

# Default Arrangements

- 9.1 The Trustee is required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustee has designated the Drawdown Targeting Lifecycle (outlined in the section 5) as the default arrangement for the Scheme.
- 9.2 The Drawdown Targeting Lifecycle 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 members in order to test alternative investment strategies. The design of the Drawdown Targeting Lifecycle reflects this analysis, having carried out multiple simulations of future economic and investment scenarios, and taking into account the various options that members will have regarding the way in which they draw their benefits in retirement.
- 9.3 The aim of the Drawdown Targeting Lifecycle is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through 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.
- 9.4 The asset allocation throughout the Drawdown Targeting Lifecycle 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.
- 9.5 The outcomes of the Drawdown Targeting Lifecycle 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.

Neil Bowden

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Chair of Trustee

29 April 2025

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Date

On behalf of the Trustee of the A&O Shearman Pension Scheme