Statement of Investment Principles for the Bayer Group Pension Plan 09 November 2021

1. Introduction

This Statement of Investment Principles (or SIP) sets out the policy of the Directors of Silver Birch Trustee Limited (the "Trustee"), Trustee of the Bayer Group Pension Plan (the "Plan").

It sets out our policies on various matters governing investment decisions for the Bayer Group Pension Plan (the "Plan").

This SIP replaces the previous SIP dated November 2019.

Historically, the Defined Benefit Section of the Plan consisted of the following three Sections:

- Legacy Bayer Group Pension Plan ("BGPP")
- Legacy Bayer CropScience Pension Scheme ("BCSPS")
- Legacy SHCL Pension Scheme ("SHCLPS")

However, in July 2021, the Plan formally de-sectionalised meaning that under the current arrangement all of the assets and liabilities of each legacy section have been combined into one entity; the Bayer Group Pension Plan.

In addition there are defined contribution ("DC") benefits relating to additional voluntary contributions ("AVCs") linked to membership of the Plan, together with DC funds transferred into the Plan from other registered pension schemes which are invested together with the AVCs.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 and the Pensions Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification, given the circumstances of the Plan, and the principles contained in this SIP. The Trustee has consulted with Bayer plc (the "Company") in its capacity as the sponsoring employer in producing this SIP. The Trustee has also consulted with Bayer AG on the arrangements outlined in this SIP.

The Trustee has sole responsibility for decisions regarding the Plan's investment arrangements and there is no scope for the Company to limit the Trustee's powers of investment beyond the arrangements agreed formally in the Sponsor Guarantee. The Trustee's investment responsibilities are governed by the Plan's Trust Deed, of which this Statement takes full regard.

We have consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

- **Appendix 1** sets out details of the respective key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

- **Appendix 2** sets out the Trustee's policy towards rick appetite, capacity, measurement and management.

- **Appendix 3** sets out the Plan's investment manager arrangements.

Copies of this document have been given to the Company, the investment adviser, the Scheme Actuary and the investment managers. Copies are available to members of the Plan on request.

2. Investment objectives

The Trustee's primary objective is to ensure that the Plan should be able to meet benefit payments as they fall due. A secondary objective is that the Plan should be fully funded (ie the asset value should be at least that of its liabilities). The Trustee is aware that there are various measures of funding and liabilities, and has given due weight to those considered most relevant to the Plan.

The Trustee and Company have agreed a recovery plan that is expected to help the Plan achieve full funding on a technical provisions basis. As such they recognise that longer term a stronger target may be more appropriate and have agreed a guarantee (dated June 2012) centred around full funding on a termination basis. The guarantee is in place until 2036.

The Trustee's main objective for the Plan's DC benefits is to provide an appropriate range of fund options, reflecting the membership profile for members who have DC benefits in the Plan.

3. Investment strategy

The strategic asset allocation is driven by the Plan's liabilities, the risk tolerance of the Trustee and its understanding of the covenant of the Company, and in consultation with the Company (within the context of the guarantee in place).

The Trustee aims to ensure that assets of the Plan are predominantly traded on regulated markets. The Trustee will look at maintaining investments in assets, which are not admitted to trading on such markets, to a prudent level.

The Trustee, with the help of its advisers and in consultation with the Company, introduced a de-risking trigger mechanism in conjunction with the 2017 actuarial valuation. This was focussed around evolving the investment strategy with regard to the objectives described in Section 2 above. In the period since that mechanism was agreed, de-risking triggers were hit in March 2018, December 2020, February 2021, and May 2021. Each trigger prompted a sale of equities and corresponding purchase of bonds. In line with the terms of the guarantee, written consent was received from the Company in advance of these switches occurring.

Further de-risking and re-risking triggers may be agreed by the Trustee and Company in accordance with the Investment De-risking policy V2.0 dated March 2021, a copy of which is appended to this SIP.

The agreed investment strategy of the Plan is based on the strategic allocation as detailed below. The specified tolerance limits used for the monthly rebalancing process is also shown below.

Asset class	Strategic allocation	Control ranges +/-
Global equities	23%	**3.0%**
Property	10%	-
Total Bonds	**67%**	**3.0%**
UK index-linked gilts	27%	1.5%
Total Fixed interest bonds	**40%**	1.5%
UK gilts	19%	-
Corporate bonds	21%	-
Total	**100%**	

In normal market conditions, the Plan will be invested in the asset classes as set out above. L&G will carry out monthly rebalancing on the portfolios (with the exception of the property portfolio) to bring the asset allocation in line with the above allocations, within specified tolerance limits.

The Trustee may suspend rebalancing of the equity and bond assets back to the limits specified if it deems this to be appropriate, after having consulted with the Company and Bayer AG.

On an annual basis, the Trustee considers whether the property allocation should be rebalanced towards its strategic allocation.

For the DC benefits, the Trustee has made available a range of investment funds for members. Each member is responsible for choosing one or more funds for the investment of their DC account, having regard to their attitude to the risks involved.

4. Considerations made in determining the investment arrangements

When deciding how to invest the Plan's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk. The Trustee also considers the terms of the guarantee, mindful of the risk mitigation impact of having the guarantee in place.

The Trustee considered a wide range of asset classes for investment, and the expected returns and risks associated with those asset classes. The key financial assumptions made by the Trustee in determining the investment arrangements are guided by the investment adviser.

In setting the strategy the Trustee also took into account:

- The Plan's investment objectives, including the target return required to meet the Trustee's investment objectives;
- The Plan's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given then risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Plan's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Plan;
- the Principles set out in the Myners voluntary code of principles; and
- the Trustee's investment belief about how investment markets work, and which factors are more likely to impact investment outcomes.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that do not have an expected reward should generally be avoided, hedged or diversified;
- investment markets are generally efficient, and so active management would not lead to added value; however in some areas (such as less liquid markets) limited active management may be appropriate;
- in order to look to maximise risk adjusted returns, decision making should include consideration of many factors, including ESG factors;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in Appendix 3.

The Trustee has signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Plan's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Plan's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

6. Realisation of investments

The Trustee, together with the Plan's administrators, will ensure that it holds sufficient cash to meet the likely benefit outgo from time to time. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy. The Investment Management Agreements contain restrictions and guidelines that are designed to limit the Plan's exposure to any individual asset class, market or security. No investments are expected to take an undue amount of time to liquidate, other than investments in property.

The Trustee's policy is not to leverage the portfolio. Some short-term borrowing for settlement is allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

7. Consideration of financially material and non-financial matters

The Trustee has considered how social, environmental and ethical factors ("ESG") should be taken into account in the selection, retention and realisation of investments given the time horizon of the Plan and its members.

The Trustee influences the Plan's approach to ESG and other financially material factors through their investment strategy and manager selection decisions. The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Plan's investment managers are notified of the Trustee's specific policies below, which are conscious of the wider Bayer ESG Mission Statement.

- The Trustee delegates its voting rights to investment managers and expects these to be exercised where practical.
- Where investment style and resources permit, the Trustee encourages its investment managers to engage with investee companies, and where concerns arise, to promote the interests of long term shareholders.
- The Trustee recognises that ESG factors can impact investment risk and return and, where investment style and resources permit, encourages its investment managers to take such factors into account in the exercise of their delegated duties.
- As part of its ongoing manager research process, the Trustee expects its investment adviser to engage with the Fund's investment managers regarding their approach to stewardship and ESG and to encourage on-going improvement as appropriate.

8. Stewardship

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee has published a UK Stewardship Code Statement (enclosed in Appendix 4), which is reviewed periodically, confirming its support of good stewardship and its recognition of the UK Stewardship Code as best practice. The Trustee expects its investment managers to adhere to the principles of the Code, to document their policies on stewardship, and to disclose these publicly.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. The Trustee additionally cannot usually directly influence the manager's policies on the exercise of ownership rights where assets are held in pooled funds; this is due to the nature of these investments. The Trustee understands that ownership rights will be exercised by the investment managers in line with the managers' general policies on stewardship, which reflect the recommendations of the UK Stewardship Code issued by the Financial Reporting Council where relevant, and which are provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

9. Additional Voluntary Contributions ("AVCs") and DC benefits

The Plan provides a facility for members (of the Legacy SHCL Pension Scheme) to pay AVCs into the Plan to enhance the benefits at retirement. Some AVCs are used to purchase "added years" of service for the members and the proceeds are invested alongside the main Plan assets. The remaining AVC's are invested on a DC basis.

In addition to AVCs, some members are entitled to DC benefits in the Plan by virtue of previous transfers-in from other registered pensions schemes to the Plan that are provided on a defined contribution basis.

For the AVCs and DC benefits, the Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their DC account, having regard to their attitude to the risks involved.

In determining the investment arrangements for the AVCs and DC benefits it is our policy to consider:

- the overall best interests of members and beneficiaries;
- the profile of the DC membership and what this is likely to mean for the choices members might make upon reaching retirement, in conjunction with the member's DB entitlement in the Plan; and
- the need for appropriate diversification to manage investment risk within the options made available to DC members, and ensure that both the overall level of investment risk and the balance of individual asset risks is appropriate.

We also consider any other factors which we believe to be financially material over the applicable time horizons to the funding of the DB, DC and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

SIP effective from: 09 November 2021

Investment governance, responsibilities, decision-making and fees

The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon our understanding of the various legal requirements placed upon us and our view that this division allows for efficient operation of the Plan overall. Our investment powers are set out within the Plan's governing documentation.

1. Trustee

The Trustee has retained certain direct responsibilities in respect of investment matters. These are:

- establishing appropriate governance arrangements;
- developing a mutual understanding of investment and risk issues with the Company and Bayer AG;
- determining the Plan's investment management structure according to the investment strategy set by the Trustee in consultation with the Company and Bayer AG;
- determining the mandates for the Plan's investment managers in consultation with the Company and Bayer AG;
- appointing (and dismissing) investment managers, custodians and consultants in consultation with the Company and Bayer AG;
- monitoring the Plan's investment arrangements on a regular basis;
- setting the investment strategy, in consultation with the Company and Bayer AG;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- monitoring the exercise of the investment powers that it has delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the Company and Bayer AG when reviewing the SIP.

2. Investment managers and custodians

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers;
- provision of performance measurement services, including monitoring of any de-risking and re-risking triggers that may be agreed between the Trustee, the Company and Bayer AG; and
- participating with the Trustee in reviews of this SIP, in consultation with the Company and Bayer AG.

4. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Trustee has agreed Terms of Business with the Plan's actuarial and investment advisers, under which the majority of work undertaken is charged for by an agreed fixed fee. Occasionally, work will be charged on a "time cost" basis.

The investment managers and custodian receive fees as set out below:

- L&G receives an agreed annual fixed fee for all investment management services carried out; and
- CBRE's fees are calculated by reference to the market value of assets under management.

The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities and manage conflicts of interest. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

6. Working with the Plan's employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the Company's and Bayer AG's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the Company or Bayer AG, the Trustee believes that better outcomes will generally be achieved if the Trustee and Company / Bayer AG work together collaboratively. The Trustee is also mindful of the guarantee that has been agreed with Bayer AG.

Policy towards risk, risk measurement and risk management

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Plan in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee's aim is to strike the right balance between risk appetite and risk capacity.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the impact of having the guarantee in place: the level of reliance on this guarantee (subject to the strength of the employer covenant); and the extent to which this reduces risk over the longer term;
- the agreed journey plan and Company contributions;
- the Plan's long-term and shorter-term funding targets;
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Plan's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR") and other suitable risk measures), now and as the strategy evolves.

Based on the Plan's current investment strategy, as at 30 June 2021 the Plan's one year 90% VaR (on a Technical Provisions basis) was c£140m. This means that there is a 1 in 10 chance that the Plan's funding position will worsen by c£140m or more over a one year period. When deciding on the current investment strategy, the Trustee believed this level of risk to be appropriate given the Trustee's and Company's risk appetite and capacity, and given the Plan's objectives.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important for the Plan. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Plan should have adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Plan to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Plan's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Plan's assets. The Trustee believes that the Plan's assets are adequately diversified between different asset classes and within each asset class. This was key consideration when determining the Plan's investment arrangements.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual, and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis against their objectives and receive ongoing professional investment advice as to their suitability.

2.4. Illiquidity/marketability risk

This is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due. The Trustee is aware of the Plan's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments and by investing in income generating assets, where appropriate.

2.5. Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

2.6. Other environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice. The Trustee will consider the internal ESG Mission Statement, a copy of which is appended to this SIP.

2.7. Credit risk

The Plan is subject to credit risk because it invests in bonds via pooled funds. The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invests in bonds that are classified as "investment grade".

2.8. Currency risk

Some of the Plan's equity and property investments are held in overseas markets. The currency risk within the Plan's global equity portfolio is largely removed as the currency exposure within these investments is hedged back to Sterling.

The Trustee considers currency exposure in the context of the overall investment strategy and believes that currency exposure should be avoided to the extent possible but accepts that it may not be possible to fully hedge all of this risk in certain asset classes.

2.9. Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

2.10. Interest rate and inflation risk

The Plan's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bonds via pooled funds. However, the interest rate and inflation exposure of the Plan's assets hedges part of the corresponding risks associated with the Plan's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to have exposures to these risks in this manner.

The Trustee has agreed to increase the level of interest rate and inflation risk in the Plan's assets (and corresponding matching to the Plan's liabilities) when the funding level of the Plan reaches a sufficient level. This will reduce the impact that movements in long term interest rates and inflation expectations might have on the Plan's funding level in the future.

2.11. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.12. Valuation risk

Some of the Plan's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as property), prices may only be estimated relatively infrequently using one or more of a range of approximate methods – eg mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Plan's overall investment strategy and believe that the level of exposure to this risk is appropriate.

2.13. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Plan, and takes these into consideration as far as practical in setting the Plan's investment arrangements.

Examples include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Plan as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Plan's funding target, both in the longer term as well as against short-term milestones, comparing the actual versus the expected funding level. By understanding and considering the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.

Investment manager arrangements

The Trustee has considered the use of both passive and active investment management when developing and reviewing the Plan's investment strategy. The resultant allocation to active and passive management is formed following consideration of the efficiency, liquidity and level of transactions costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns net of fees.

The Trustee has selected Legal and General Investment Management ("L&G") and CBRE Global Investors ("CBRE") as the investment managers for the Plan's portfolios. Details of the investment managers, their objectives, investment guidelines and custody arrangements are set out below.

1. L&G

The Plan makes use of L&G funds as set out below. All of the L&G funds with the exception of the Managed Property Fund (labelled "Property" in the table below) are managed on a passive basis; so the performance objective is to track the respective benchmark to within reasonable tolerance levels over time. The Managed Property Fund aims to outperform its benchmark over three and five year periods.

Asset class	Benchmark
Global equities	FTSE All-World Index - GBP Hedged
UK Index-linked gilts	FTSE A Index Linked (Over 15 year) Index
UK fixed interest gilts	FTSE Actuaries UK Conventional Gilts Over 15 Years
UK corporate bonds	Markit iBoxx £ Non-Gilt (ex-BBB) 15 Year+ Index
Property	AREF/IPD UK Quarterly All Balanced Property Funds Index
Liquidity Cash*	7 Day LIBID

*The Plan invests cash required for benefit payments in this fund on a short term basis (up to six months).

2. CBRE

A portion of the Plan's property allocation (see Section 3 below) is invested in a combination of pooled funds with CBRE as set out below.

Pooled fund	Benchmark	Target
UK Osiris Property Fund	IPD UK QPFI All Balanced Property Index	To outperform the respective benchmark by 0.50% pa
Global Alpha Fund	n/a	10% pa over a rolling three year period

The Trustee invests in a USD share class of the Global Alpha Fund, which does not hedge overseas currencies back to Sterling. Therefore, on this investment, the Trustee faces the impact of movements between Sterling and overseas currencies.

3. Split of property allocation between L&G and CBRE

As noted above, the Plan's property allocation is split between an L&G pooled property fund and two pooled CBRE property funds.

The Trustee will consider the split between L&G and CBRE property investments over time in conjunction with its investment adviser and will alter this split as it sees fit.

The UK Osiris Property Fund is currently being wound down and the cash disinvestment proceeds are being paid to the Plan's Trustee Bank Account on an ongoing basis.

4. Custodian

The Plan's assets are entirely invested in pooled fund arrangements, which have their own custodian and administration services. There is no standalone custodial relationship in place with the Trustee.

5. Cashflow policy

As the Plan's assets are invested in line with a strategic benchmark that is maintained by L&G, any investments or disinvestments from the Plan's equity and bond assets will be made so as to maintain that strategic benchmark. For the purposes of monthly rebalancing and cashflow provision, L&G will only invest or disinvest from the Plan's equity and bond funds. However, annual deficit contributions may be used to rebalance the property allocation.

The Plan also receives regular income from its investments, typically on a monthly and quarterly basis, which is used to help meet any cashflow requirements. Whilst the CBRE Osiris UK Property found is being wound down, capital redistributions are being paid to the Plan which are being used to meet cashflow requirements.