

ING UK Pension Fund

Statement of Investment Principles

(February 2021)

Introduction

- 1 This document is the Statement of Investment Principles (“SIP”) made by the Trustees of the ING UK Pension Fund (the “Fund”) in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004) (“the Act”) and regulations made under the Act.
- 2 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees have taken written advice from the Fund’s Investment Consultant (Towers Watson Limited) and have consulted with the Employer to the Fund (ING Services Limited). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Fund’s Trustees.

Fund Objectives

Final Salary section

- 3 The principal investment objective of the Fund’s final salary section is to ensure that the Fund is able to provide the benefits set out in the Trust Deed. The Trustees seek to achieve this through investing in a diversified portfolio of assets, having taken account of the Fund’s liabilities and its tolerance of risk in the context of the Trustees’ evaluation of the Employer’s covenant.
- 4 In consultation with the Employer, The Trustees have agreed on an investment strategy designed to reduce substantially the Fund’s dependence on the support of the Employer. They propose to achieve this through a policy of targeting an agreed level of returns in excess of the liabilities, with the expected investment return and risk of the Fund’s assets declining gradually as the Fund achieves and exceeds a stronger funded position. Above 105.0% funding, the Fund will retain the excess return target of 0.5% p.a. above minimum risk liabilities.
- 5 In line with this, the Fund’s return objective is to generate returns, relative to liabilities measured on a minimum risk basis, based upon the funding level, using the schedule below as an indicative framework for when the return objective should be reviewed:

Funding Level	Excess Return Target (per annum)
Up to 100%	1.0%
100% to 105%	0.75%
Above 105%	0.5%

- 6 Excess Return is defined as the return over the return of liabilities on a minimum risk basis. The Trustees will review this performance objective and amend as appropriate.

Defined Contribution section

- 7 The objective of the Defined Contribution section is to provide a suitable investment framework to allow members to save for retirement. This is addressed through the Investment Principles detailed below.

Investment Principles

Final Salary Section

- 8 The Trustees have received advice to determine an appropriate investment strategy for the Fund. The Investment Consultant considers the Trustees' policies set out within this statement when carrying out its role and responsibilities, which ensures appropriate incentivisation and alignment of decision-making with the trustees' overall objectives, strategy and policies. The Trustees have a desire to diversify the Fund's risk exposures and to manage the investments efficiently. The Trustees manage the Fund cost effectively and at the lowest practical cost where possible, noting that in some circumstances higher fees may result in higher returns. The Trustees have delegated responsibility for investment decisions to its Investment Committee ("IC"). All decisions of the IC will be recorded in committee minutes and made available to the Trustees.
- 9 The IC will work towards achieving the Excess Return Target, as defined in paragraph 5 above, for the Final Salary Section's assets on a prudent basis. To achieve this, the IC has the flexibility to target a margin over the Excess Return Target.
- 10 The investment strategy makes use of two main kinds of investments:
- a range of instruments that provide a close match to changes in liability values, including (but not limited to) fixed interest and index linked gilts, investment grade corporate bonds, gilt repos, swaps and other derivative based investments;
 - a diversified range of return-seeking assets, including (but not limited to) equities, commodities, emerging market securities, high yield bonds, leveraged loans, asset-backed securities, infrastructure funds, property, hedge funds and reinsurance.

These portfolios may be structured on either an active or a passive basis.

- 11 The balance within and between these investments will be determined from time to time with regard to enhancing the probability of achieving the Fund's investment objective.
- 12 The Fund will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.
- 13 The Trustees will monitor the liability profile of the Fund and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.
- 14 The expected return on investments will be monitored regularly in the light of the return required in order to meet the Fund's investment objective.

- 15 The Trustees' policy is that there will be sufficient investments in cash, liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that, where possible, the realisation of assets will not disrupt the Fund's investment strategy.
- 16 The Trustees' policy for incorporating social, environmental or ethical considerations into the Final Salary section is in line with the policy for the Fund as a whole, outlined in the Responsible Investment and Stewardship section below.

Investment Principles

Defined Contribution Section

- 17 The Trustees select the range of funds (with consultation with the Employer) with the intention of meeting the objective in 7 above, and will periodically review the range of funds provided, taking advice from the Investment Consultant.
- 18 Members have the right to invest in the range of funds entirely at their discretion. If members fail to make a choice, the Trustees have made available a default option for members of the DC section. The approach for the default option has been formed as a lifecycle investment strategy. In addition, members can self-select from a range of other lifecycle investment strategies with different levels of risk and target retirement outcomes. Lifecycle strategies are designed to meet the conflicting objectives of maximising the value of a member's assets at retirement and protecting the value of accumulated assets particularly in the years approaching retirement. The Trustees' current policy is not to take into account members' views on non-financial matters in the selection, retention and realisation of funds available for investment or of investments selected for the default option.
- 19 The Medium Risk Drawdown Lifecycle investment strategy acts as the default investment option with 65 as the default target retirement age (for the purposes of de-risking). Members can nominate another target retirement age for Lifecycle strategies. Over the years just prior to retirement, the default investment option de-risks to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. The strategy is set out below:

Term to Retirement	Name of Fund			
	LGIM Global Equity (30:70) Index Fund	LGIM Diversified Fund	LGIM Pre-Retirement Inflation Sensitive Fund	LGIM Cash Fund
10+	50.00%	50.00%	0.00%	0.00%
9	45.00%	49.50%	5.50%	0.00%
8	40.00%	49.00%	11.00%	0.00%
7	35.00%	48.50%	16.50%	0.00%
6	30.00%	48.00%	22.00%	0.00%
5	25.00%	47.50%	27.50%	0.00%
4	20.00%	47.00%	28.00%	5.00%
3	15.00%	46.50%	28.50%	10.00%
2	10.00%	46.00%	29.00%	15.00%
1	5.00%	45.50%	29.50%	20.00%
0	0.00%	45.00%	30.00%	25.00%

- 20 The aims of the current default investment option, and the way in which the Trustees seek to achieve these aims are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

The Medium Risk Drawdown Lifecycle's growth phase invests in equities and other return-seeking assets through a diversified growth fund. These investments are expected to provide equity-like growth over the long term with some downside protection.

- To provide a strategy that reduces investment risk for members as they approach retirement, and to provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take their benefits via income drawdown at retirement.

As a member's DC section account grows over time, potential investment risks will have a greater impact on member outcomes. Therefore, the Trustees believe that a default option which reduces investment risks as the member approaches retirement is appropriate. In addition, as members approach retirement, the Trustees believe the primary aim should be for members' assets to be invested in a portfolio appropriate for using income drawdown in retirement, albeit recognising that members will have to transfer out of the plan to access their benefits in this way.

The Trustees therefore consider the level of risk within the default investment option in the context of the variability of expected member outcomes at retirement. The aims are achieved via automated lifecycle switches over the ten year period to a member's target retirement date, as outlined in the table above.

- 21 The default investment option manages investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. When reviewing the investment strategy of the default investment option, the Trustees consider risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members.
- 22 The Trustees take account of financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of DC Section members' investment time horizons and objectives.
- 23 The Trustees consider sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework. The Trustees' policy for incorporating social, environmental or ethical considerations into the default option is in line with the policy for the Fund as a whole, outlined in the Responsible Investment and Stewardship section below. The principles articulated in this section apply both to the DC Section's default lifecycle investment option and the self-select fund range
- 24 To ensure assets in the default investment option are invested in the best interests of members and beneficiaries, the Trustees conducted a membership analysis exercise, considering a variety of demographic variables, to better understand the risk profile of the Plan's membership and members' likely retirement decisions. Based on this understanding of the membership, a default investment option that targets income drawdown at retirement is considered appropriate. In addition, members are supported by clear communications regarding the aims of the default option and the access to alternative Flexicycle investment options.
- 25 In 2020 the LGIM Hybrid Property (70:30) (Active and Passive) Fund placed a temporary suspension on trading activity due to material difficulties in valuing the underlying property assets as a result of COVID-19. Therefore, the Trustees redirected all incoming contributions destined for this fund to the LGIM Cash Fund. As a result of this, the Trustees are treating the LGIM Cash Fund as a default investment option.

- 26 The Trustees believe that the LGIM Cash Fund is the most suitable alternative for the redirection of contributions from the LGIM Hybrid Property (70:30) (Active and Passive) Fund from the range available in the DC Section, and therefore it is in the best interest of members for their ongoing contributions to be redirected in this way. This option is the most prudent and ensures that members contributions are invested at low levels of investment risk. However, the Trustees note there will be an opportunity cost of any potential upside other funds may provide.
- 27 The aim of the Trustees in providing the LGIM Cash Fund is to provide DC Section members with access to an investment option focused on capital protection. In line with the wider policies on investment matters set out in this Statement, the Trustees have made this option available in conjunction with the other DC Section investment options to ensure there is sufficient choice for members to select funds that best meet their risk versus return preferences. The Trustees recognise that by redirecting members ongoing contributions to the LGIM Cash Fund, members will not have explicitly consented to having contributions invested in this fund. However, the Trustees are comfortable with this on the basis that this was well communicated to members and members were reminded of the alternative options available in the DC Section's fund range, and offered the opportunity to select alternative options in advance of the change being imposed, should this not meet their desired risk and return preferences.
- 28 In 2020 The Trustees transitioned all assets held in the Schroders Diversified Growth Fund to the LGIM Diversified Fund, including assets held by members on a self-select basis. As the assets of these self-selecting members were transitioned to the LGIM Diversified Fund on a non-consent basis (although members were reminded of the option to select alternative funds from DC Section's fund range), the Trustees are treating the LGIM Diversified Fund as a default option.
- 29 The Trustees believe there is a presumption in favour of preserving previous self-select choices, insofar as is possible, when undertaking non-consent transitions of self-select assets. Therefore the Trustees believe it is in the best interest of members to transition assets from the Schroders Diversified Growth Fund to the LGIM Diversified Fund, as the LGIM Diversified Fund provides a broadly comparable risk and return profile to the Schroders Diversified Growth Fund with materially lower annual charges. In addition, the Trustees communicated this change to members in advance, reminding members to engage with their investment decision-making.
- 30 The aim of the Trustees in providing the LGIM Diversified Fund is to provide DC Section members with access to an investment option focused on delivering long-term growth through exposure to a diversified range of asset classes. In line with the wider policies on investment matters set out in this Statement, the Trustees have made this option available in conjunction with the other DC Section investment options to ensure there is sufficient choice for members to select funds that best meet their risk versus return preferences.
- 31 Considering the demographics of the Fund's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default options are appropriate. The Trustees will continue to review this at least triennially, or sooner if there are material changes to the membership.
- 32 The Trustees provide members with information concerning each of the funds from which they may choose in order to enable them to design and review their own investment strategies.
- 33 The Trustees' intention is that all funds should have clear, distinct, investment objectives. This is intended to facilitate members' design of their own investment strategies.

- 34 The Trustees will review these principles periodically and amend them as appropriate.

Investment Managers

Final Salary Section

- 35 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently.
- 36 The Trustees are not involved in the investment managers' day-to-day method of operation and does not seek to influence directly attainment of their performance targets. The Trustees will maintain processes to ensure that performance and risk is assessed on a regular basis against a measurable objective for each investment manager, consistent with the achievement of the Fund's long-term objectives, and an acceptable level of risk.
- 37 The Fund uses different managers and mandates to implement its investment policies. The Trustees ensure that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those require under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). With the help of the Investment Consultant, the Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.
- 38 The Trustees seek to appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the Trustees focus on longer-term outcomes, commensurate with the Trustees' position as a long-term investor. Consistent with this view, the Trustees do not terminate an appointment based purely on short-term performance but recognise that a manager may be terminated within a short timeframe due to other factors, such as a significant change in business structure or the investment term. The Trustees adopt the same long-term focus as part of its ongoing oversight of the Investment Consultant.
- 39 For most of the Fund's investments, the Trustees appoint managers with a medium to long term time horizon, consistent with the duration of the Fund. In particular, areas such as equity and credit, the Trustees expect the Investment Consultant to work with the manager who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of sustainable investment. The Trustees note that they may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustees expect that the appropriateness of the Fund's allocation to such mandates is determined in the context of the Fund's overall objectives.

Investment Managers

Defined Contribution Section

- 40 Alignment between an investment manager's management of the DC Section's assets and the Trustees' policies and objectives is a fundamental part of the appointment process of a new investment manager. As the DC Section only invests in pooled investment funds the Trustees cannot directly influence or incentivise investment managers to align their management of the funds with the Trustees' own policies and objectives. However, the Trustees will seek to ensure that the investment objectives and guidelines of any investment fund used are

consistent with its own policies and objectives. The Trustees will also seek to understand the investment manager's approach to sustainable investment (including engagement).

- 41 The Trustees are responsible for monitoring the DC Section's investment funds and managers, with assistance from the Investment Consultant. As part of this, the Trustees will share with the investment managers the most recent version of this Statement of Investment Principles (SIP) on a regular basis to ensure managers are aware of the Trustees' expectations regarding how the DC Section's assets are being managed. Should the Trustees' monitoring processes reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustees' policies, the Trustees will engage with the investment managers to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible the Trustees may consider alternative options available in order to terminate and replace the manager.
- 42 The Trustees appoints their investment managers with an expectation of a long-term partnership, which encourages active ownership of the DC Section's assets. For most of the DC Section's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. When assessing an investment manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate an investment manager's appointment based purely on short term performance. However, an investment manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- 43 Investment managers are paid a fee expressed as a percentage of assets managed, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustees review the costs incurred in managing the DC Section's assets on a periodic basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that type of fund.

Responsible Investment and Stewardship

Final Salary Section

- 44 The Trustees have delegated investment manager selection, de-selection and monitoring to the IC and in turn management of assets to the Fund's investment managers. However, the IC recognises that an investment's long-term financial success is influenced by a range of financially material factors including Environmental, Social and Governance (ESG) issues.
- 45 Consequently, the IC (through the advice of the Investment Consultant with its associated approach to ESG issues, as set out in items 46-51 below) seeks to be an engaged and active long-term investor. The IC's focus is explicitly on financially material factors.
- 46 The Investment Consultant has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. The IC expects the Investment Consultant to assess the alignment of the Fund's managers' approach to sustainable investment (including engagement) with its own before recommending such an investment to the IC. The IC expects the Investment Consultant to engage with the managers where appropriate regarding their approach to stewardship in respect of relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. In

addition, the IC expects the Investment Consultant to review the managers' approach to sustainable investment factors, such as, but not limited to, those arising from ESG considerations including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures which the Investment Consultant takes into account in the assessment.

- 47 With help from the Investment Consultant, the IC considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Investment Consultant takes into account in the assessment.
- 48 The IC encourages and expects the Fund's investment managers to sign up to local or other applicable Stewardship Codes through their Investment Consultant, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Investment Consultant itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.
- 49 The IC's policy is that day-to-day decisions relating to the selection, retention and realisation of the Fund's underlying assets are left to the discretion of the investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant. The Trustees explore these issues with their advisers to understand how the investment managers exercise these duties in practice.
- 50 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Investment Consultant has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement.
- 51 The Trustees consider the fee structures of asset managers and the alignment of interests created by those fee structures as part of its investment decision making process, both at the appointment of an asset manager and on an ongoing basis. Asset managers are generally paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustees expect the Investment Consultant to review and report on the costs incurred in managing the Fund's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees expect the Investment Consultant to have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Responsible Investment and Stewardship

Defined Contribution Section

- 52 For the DC Section the Trustees take account of financially material risks and opportunities in consultation with their Investment Consultant. All risks and opportunities are considered for materiality and impact within a risk management framework, which takes account of members' investment time horizons and objectives. The Trustees consider sustainable investment factors, such as (but not limited to) those arising from ESG considerations, including climate change, in the context of this broader risk management framework.

- 53 The Trustees' policy is that day-to-day decisions relating to the selection, retention, and realisation of the DC Section's assets is left to the discretion of the investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant. The Trustees explore these issues with their Investment Consultant to understand how the investment managers exercise these duties in practice.
- 54 When considering the appointment of new managers, and reviewing existing managers, the Trustees, together with their Investment Consultant, look to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.
- 55 For the DC Section, the Trustees' policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. The Trustees recognise the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.
- 56 The Trustees have also included an investment option in the DC Section's self-select fund range to cater for members with particular sustainable investment convictions. This fund, the LGIM MSCI ACWI Adaptive Capped ESG Index Fund, tilts its equity allocation towards companies considered ESG leaders and away from those considered laggards (as well as excluding certain stocks, for example (and among others) those of companies involved in the manufacture and distribution of controversial weapons).
- 57 The Act distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.
- 58 The Trustees' policy is to review the Fund's investments and to obtain written advice about them at regular intervals (normally annually). When deciding whether or not to make any new investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to a fund manager.
- 59 The written advice will consider whether the investment is satisfactory having regard to the requirements of the regulations, so far as relating to the suitability of investments, and to the principles contained in this statement.

Risk

- 60 The Trustees recognise a wide range of risks involved in the investment of the Fund's assets.
- 61 The key risk faced by the Final Salary section of the Fund is that it is unable to achieve the returns relative to liabilities detailed in the Fund Objectives and that the Employer covenant is insufficient to cover this shortfall. The investment risk is addressed through ongoing monitoring of the investment returns achieved relative to the expected returns and through ongoing evolution of the asset mix in order to maintain reasonable expectations of achieving the funding targets over an acceptable timeframe. Assessment of the Employer covenant is managed through ongoing dialogue between the Trustees and the Employer.

- 62 The key risk faced by the Defined Contribution section of the Fund is not meeting Defined Contribution members' investment expectations based on past returns achieved. This is addressed through monitoring the returns achieved by the appointed investment managers and ensuring that an appropriate range of funds is offered to members. The Trustees also provide information to Defined Contribution members to keep them informed of how much they have invested and the potential implications for their accumulated Defined Contribution savings at retirement.
- 63 In addition to the above primary risks, the Trustees monitor and, in conjunction with advice from the Investment Consultant, manage a wide range of risks, including but not restricted to: active management, counterparty, currency, custodian, liquidity, counterparty, derivatives, interest and inflation rate and legal and operational risks.

Other Matters

- 45 Fund members are able to pay Additional Voluntary Contributions on a money purchase basis. Members are offered the same range of investment funds as available to the Defined Contribution members and the principles relating to the Defined Contribution Section apply also to AVCs.

Signed: ***Approved and signed by the Chair of Trustees on 22 April 2021***

Name: Johnnie Russell

Date: 22 April 2021

Authorised for and on behalf of the Trustees of the Fund