Mellon Retirement Benefits Plan

Statement of Investment Principles

September 2024

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Introduction

Plan background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the Mellon Retirement Benefits Plan (the "Plan") by the Board of Directors of the Corporate Trustee, Mellon Europe Pension Nominees Ltd (the "Directors").

- The Plan operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries, calculated on a defined benefit basis.

- In accordance with the Pensions Act 1995 and subsequent legislation, the Directors have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the sponsoring employers (the "Sponsor") before agreeing with the investment managers the investment strategy outlined in this document.

- The Directors have full regard to their investment powers under the Trust Deed and Rules and the suitability of types and diversity of investments, the custodianship of assets and any self-investment.

- The service providers to the Plan (including investment managers and custodian) prepare regular detailed reports on their activities and the Directors (or an Investment Sub-Group appointed by the Directors) oversee their activities and service levels, meeting with them as required to achieve this.

- This Statement is reviewed periodically and whenever changes to the principles or strategy are necessary. Any changes to this Statement are undertaken on the advice of authorised investment consultants, as are any appointment or review of the investment managers.

- All investment decisions of the Plan are under the control of the Directors, acting collectively, without constraint by the Sponsor. In accordance with the Financial Services & Markets Act 2000, the Directors are responsible for setting the general investment policy, but day-to-day investment decisions have been delegated to investment managers authorised under the Act. Details are included in the appendices.

- The Directors are responsible for reviewing both the asset allocation and the investment strategy of the Plan following each actuarial valuation in consultation with the Plan's investment consultant.

Statement of Investment Principles

Key investment principles

Investment objective

- The primary objective of the Directors is to provide security to all beneficiaries of the Plan while taking into account the legitimate desire of the Sponsor to manage the financial volatility associated with a defined benefits pension scheme.

Suitability of investments

- Following a period of successful investment performance and additional contributions by the Sponsor over a number of years, the Plan is now well-funded measured using a strong actuarial basis to value the Plan's benefits. The Directors took a series of steps at the end of 2018 and early in 2019 designed to materially reduce the risks to which the Plan was exposed while enabling the Plan to honour its obligations to members and at the same time minimising the need for further additional contributions from the Sponsor. To help achieve this:

  - The Plan has been closed to future accrual following a formal member consultation.
  - Plan assets have been substantially repositioned from higher risk 'return seeking' investments to contractual credit and fixed income investments designed to deliver a low risk return more closely aligned with the profile of the Plan's liabilities.
  - The Directors have appointed Insight Investment Management ("Insight") to manage the majority of the Plan's assets and intend to transition the remaining invested assets to Insight in the medium term as existing arrangements, notably with Alcentra Asset Management ("Alcentra"), expire.
  - The Directors have instructed Insight to target 111% funding of the Plan on or before 2033, using an actuarial basis that values the Plan's liabilities with a discount rate based on the yield on gilts of an appropriate term for the nature of the liabilities plus 0.5% pa ("gilts + 0.5% pa"). The Directors believe that this target is realistic and a buffer of 11% provides for possible future adverse experience including adverse market conditions, mortality improvements and GMP equalisation.
  - Insight, under the terms of their appointment, have implemented hedging strategies to substantially mitigate interest rate and inflation risk.
  - The Directors consider the target asset allocation to be consistent with their objective of meeting the liabilities of the Plan while minimising risk but will keep the asset allocation and investment strategy under regular review, particularly in light of the triennial valuation results, and will make further adjustments as and where necessary.

Risk

- The Director's chosen Investment Strategy, including liability matching investments and risk hedging strategies, and careful selection of investment managers to implement this, is designed, with regular oversight and monitoring, to substantially mitigate the key risks to which the Plan is exposed. Close engagement with the Sponsor and monitoring of the Sponsor Covenant provides further assurance that the Plan should be able to respond effectively to unforeseen changes in business or economic circumstances. Some particular areas of risk focus are described in more detail below.

Diversification and balance between different kinds of investments

- The Directors, after seeking appropriate investment advice, have selected an investment strategy for the Plan as described above and detailed in Appendix 1.

- Subject to their respective benchmarks and guidelines (see Appendix 1) the investment managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios within their specific mandates and to demonstrate this in their regular investment reports.

Target return on investments

- The investment strategy is set with the aim of achieving 111% funding on a gilts + 0.5% pa basis by 2033, and, as the Plan is closed to future accrual, this is expected to be achieved without the need for further contributions. The Directors believe the current investment strategy is consistent with achieving this goal.

- The actual distribution and performance of the investments will be monitored by the Plan's investment consultant in conjunction with Insight and Alcentra via quarterly monitoring reports to the Directors.

Kind of investments to be held

- In order to achieve the primary investment objective, the assets of the Plan are invested almost entirely in fixed income investments. However, if required, the Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes.

Realisation of Investments

- The investment approach agreed with Insight targets three pools:
  - cash to meet the Plan's expected near term cash requirements and also provide collateral for the hedging of interest and inflation risks
  - longer term corporate bond assets with fixed maturities designed to help match, directly or through periodic reinvestment, the maturity profile of the longer term liabilities of the Plan
  - secured finance assets which are illiquid medium-term bond investments aimed at generating an attractive premium over that of liquid corporate bonds and therefore which help achieve the 111% funding target.

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Directors require the investment managers to be able to realise the Plan's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Plan. The majority of assets are not expected to take an undue time to liquidate, with the exception of the Alcentra assets and secured finance assets.

Stewardship in relation to the Plan's assets

- The Directors have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Directors can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through each investment manager.

- The Directors seek to appoint investment managers that have strong stewardship policies and processes and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

- The Directors acknowledge that the concept of stewardship may be less applicable to some of their assets, particularly for short-term money market instruments and liability-driven investments.

The Director's policy in relation to financially material considerations

- The primary responsibility of the Directors is to protect the interests of members. Accordingly they expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance ("ESG") factors as part of their investment analysis and decision-making process. The Directors expect this will typically involve the investment managers avoiding investments where unfavourable ESG factors could, for example through adverse reputational means, negatively impact the valuation or return profile of such investments.

- The Directors actively review the ESG policies with their investment managers and they have agreed environmental sustainability restrictions with Insight for the Plan's corporate bond investments. For the Plan's other assets the stewardship priorities follow that of the investment managers.

The Director's policy in relation to consideration of non-financial ESG matters

- The Directors recognise that members may have increasingly proactive expectations with regard to the consideration of non-financial ESG matters in the management of Plan assets. This is a rapidly evolving area and subject to active policy discussion by the Directors, however they expect the appointed investment managers to draw attention, in their regular reports, to any potentially controversial investments and to explain why, perhaps because of active impact investing, the manager considers these appropriate or acceptable.

- Non-financial matters may be considered if the Directors have good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.

The Director's policy in relation to engagement and monitoring

- The Directors' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers. The Directors expect the investment managers to use their discretion to maximise risk-adjusted financial returns for members and others over the long term.

- The Directors review each investment manager prior to appointment and monitors them on an ongoing basis through the regular review of the investment manager's voting and engagement policies, and a review of each manager's voting and engagement behaviour.

- With the exception of the sustainability restrictions mentioned above, the Directors have not set out their own stewardship priorities but follow that of the investment managers.

- If the Directors find any investment manager's policies or behaviour unacceptable, they may agree an alternative mandate with the investment manager or decide to review or replace the investment manager.

Voting rights attaching to investments

- The Directors' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Directors detailing their voting activity.

- The Directors note that due to the nature of the assets held, there are limited voting opportunities and so believe this is an appropriate approach.

The Directors' policy in relation to their investment manager

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Directors is to select investment managers that meet the primary objectives of the Directors. As part of the selection process and the ongoing review of the investment managers, the Directors consider how well each investment manager meets the Directors' policies and provides value for money over a suitable timeframe.

How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Directors' policies

- The Directors have delegated the day to day management of the Plan's assets to investment managers. The Plan's assets are invested in pooled funds and segregated portfolios. The pooled funds have their own policies and objectives and charge a fee, agreed with the investment managers, for their services. For the segregated portfolios, the Directors, after taking advice, have agreed policies, objectives and fees for these portfolios. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Directors, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled funds and segregated portfolios to use in order to meet specific Plan policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Plan's performance) over an appropriate time horizon.

How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Directors' investment policies

- The Directors expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Directors review the investment managers periodically. These reviews incorporate benchmarking of performance, fees and the extent to which the investment managers are on course for the Directors to achieve their funding target. Reviews of performance focus on longer-term performance and the contribution to achieving the Directors' funding target.

- If the Directors determine that the investment managers are no longer managing the assets in line with the Directors' policies they will make their concerns known to the investment managers and may ultimately disinvest.

- The Directors pay their investment managers a management fee which is a fixed percentage of assets under management, and in the case of Alcentra there is also a performance related aspect to the overall fees.

- Prior to agreeing a fee structure, the Directors, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment managers.

How the Directors monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Directors, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Plan on an annual basis. The Directors receive a report which includes the turnover costs incurred by the investment managers used by the Plan.

- The Directors expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions. Such costs are expected to be low given that most of the Plan's assets are invested in portfolios which require low amounts of active trading.

- The Directors do not explicitly monitor turnover, set target turnover or turnover ranges. The Directors believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

The duration of arrangements with investment managers

- The Directors do not in general enter into fixed long-term agreements with their investment managers and instead retain the ability to change investment managers should the performance and processes of the investment managers deviate from the Directors' policies. However, the Directors expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

Additional Voluntary Contributions (AVCs)

- In managing existing AVC assets, the Directors have selected a range of options that they consider offer a suitable range of investment choices for Plan members. The Directors monitor the performance of AVC providers with the objective of securing a return consistent with that achieved by typical contracts of the kind used for AVC investment.

- Members are recommended to seek independent financial advice when considering whether the Plan's AVC arrangements are the most suitable for their individual circumstances in view of the wide choice made available through pension freedom legislation.

Appendix 1– Plan assets and performance objectives

Plan assets

The table below shows the current structure of the Plan's assets as at 30 June 2024. The Alcentra assets are illiquid. They will mature and pay out capital over approximately the next two years, with the proceeds being invested with Insight. There is no agreed split between the Insight and Alcentra assets.

Manager	Description	Allocation (%)
Insight	Cashflow driven solution	90
Alcentra	Alternatives and direct lending	10

The Insight assets are invested in a variety of fixed income related investments including corporate bonds, secured finance investments, liability driven investments and cash. These investments are dynamically managed by Insight. Insight will seek to maintain at least an 80% hedge ratio of the Plan's exposure to interest and inflation sensitivity.

Performance objectives

Manager	Objective
Insight	Dynamically manage the investments allowing for the Plan's liability cashflows and non-Insight assets to target 111% funding of the Plan on a gilts + 0.5% pa basis by 2033
Alcentra	The Strategic Credit Fund and the European Direct Lending (Levered) Fund II are planned to terminate in August 2025 and February 2025 respectively. The investment manager is selling fund assets prior to termination with the objective of maximising returns for fund investors.

Appendix 2 – Fees

Investment manager fees

Manager	Description	Fees (% p.a.)
Insight	Cashflow driven solution	0.213
Alcentra[1]	Strategic Credit Fund	1.50
Alcentra[2]	European Direct Lending (Levered) Fund II	1.25

1 Alcentra is entitled to a performance fee of 20% subject to a preferred return of 8% p.a.
2 Alcentra is entitled to a performance fee of 15% subject to a preferred return of 7.5% p.a.

Investment consultancy fees

The investment consultancy services are provided by Gallagher (Administration & Investment) Limited who are remunerated for agreed services on a fixed fee basis and other services on a time cost basis. The basis of remuneration is kept under review.