STATEMENT OF INVESTMENT PRINCIPLES

Associated British Foods | Pension Scheme

1. Introduction

The purpose of this Statement of Investment Principles ("SIP") is to record the investment arrangements (and the rationale behind those arrangements) adopted by the Trustee of the Associated British Foods Pension Scheme ("the Scheme") in accordance with the requirements of Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 and Occupational Pension Scheme (Investment) Regulations 2005.

This SIP has been prepared after obtaining written professional advice from Mercer, the "Investment Consultant", which is regulated by the Financial Conduct Authority ("FCA"). Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever it reviews this Statement.

The Trustee's investment powers are set out within the Scheme's governing documentation and relevant legislation. The Trustee notes that, according to the law, it has ultimate power and responsibility for the Scheme's investment arrangements.

The Trustee will seek to maintain a good working relationship with the sponsoring Company, Associated British Foods plc, and will discuss any proposed changes to this Statement with the Company. However, the Trustee's fiduciary obligations to Scheme members will take precedence over the Company's wishes, should these ever conflict.

The Trustee believes that the investment policies and their implementation are in keeping with best practice, including the principles underlying the (Myners) Code of Best Practice for pension fund investment published in 2001 and the Updated Principles and best practice guidance published in 2008.

The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Implementation Policy Document ("IIPD"). Both are available to members on request.

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee's investment powers. The investment powers do not conflict with this Statement.

2. Scheme Structure

The Scheme has two sections – the Defined Benefit Section ("DB Section") and the Defined Contribution Section ("DC Section").

3. Scheme Governance

A brief overview of the various parties involved in the Scheme's governance structure is set out below.

The Trustee

The Scheme's assets are held in trust by the Trustee. The Trustee is responsible for the investment of the Scheme's assets (although members of the DC Section choose the funds in which to invest from a range of funds made available by the Trustee).

The Trustee has appointed a firm of professional consultants (the "Investment Adviser") to provide relevant advice to the Trustee. The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisers.

The Trustee has established an Investment Sub-Committee (the "ISC") to focus on investment matters. The role of the ISC is to assume decision making responsibility in the area of specialist investment matters, typically including manager selection and structure decisions.

The Investment Adviser

Mercer Limited ("Mercer") for the DB Section and Alliance Bernstein for the DC Section have been appointed as the Investment Advisers to the Trustee. The details of both adviser's appointments, in terms of both obligations and remuneration, are contained in signed agreements between the Trustee and both advisers. Mercer and Alliance Bernstein provide the Trustee with sufficient information to ensure that they are fully informed as to the decisions they take and to monitor those that they delegate.

The DB Investment Managers

The Trustee has chosen to entrust the day-to-day management of the DB Section's investments to the Investment Managers as specified in the IIPD.

Details of the DB Section's strategic framework, within which the Investment Managers operate and a listing of the Scheme's current portfolios managed by the Investment Managers (including a description of the mandates and benchmarks) is set out in the IIPD.

The Trustee has also appointed an independent performance measurement company, BNY Mellon Performance & Risk Analytics Europe Limited, independent of the Investment Managers to calculate return and risk measures for each Investment Manager's portfolio and for the assets in aggregate. The Performance Measurer provides quarterly reports to the Trustee and more detailed reports on an annual basis. The investment consultant also provides quarterly reports.

The ISC meets the active investment managers at least annually and, if circumstances require, more frequently to review the managers' actions together.

The Custodian

The Scheme's custodian, Bank of New York Mellon ("BNYM"), is responsible for the safekeeping of the Scheme's assets held in segregated portfolios and for performing the associated administrative duties such as trade settlement, dividend collection, corporate actions, tax reclamation and recording the proxy voting by the Investment Managers. The Scheme's assets that are held in pooled funds or collective vehicles will be the under the safekeeping of the pooled fund's own custodian.

The Scheme Actuary

Mr James Bourne of Mercer Limited has been appointed as the Scheme Actuary. The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the Actuarial Valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme.

The Bundled DC Provider

The Trustee has chosen to entrust the investment administration and day-to-day management of the DC Section investments to the DC Provider, Mobius Life. All investments for the DC Section are held in collective investment funds managed by the Bundled DC Provider or by other investment managers whose funds are available on the Bundled DC Provider's investment platform. The terms are contained in the documentation provided by the Bundled DC Provider to the Trustee. Either the investment managers or the specific funds in which the DC Section invests are regulated by the FCA.

4. Defined Benefit Section

4.1 Investment Objective

The Trustee believes its prime objective is to invest the Scheme assets in such a manner that it is likely that the Scheme liabilities can be met.

The estimated liabilities are a series of projected cash flows calculated on assumptions contained in the valuation basis. In theory, the matching asset would be a portfolio of UK Government bonds that provided these projected cash flows in all future economic scenarios. Given the discrete number of UK Government bonds available, such a combination is unlikely to exist in practice. It is nonetheless a valid reference point against which to assess investment strategies that can be implemented in practice.

In agreeing to adopt this investment objective, the Trustee has taken into account the Company's view that some risk should be taken in an attempt to reduce the cost of providing the benefits which would be expected from adopting a fully matched investment strategy.

4.2 Investment Policy

Strategic Management

There is a broad target benchmark split between asset classes for the DB Section. The strategic framework including benchmarks is outlined in the IIPD.

Interest rate and inflation risk exposures will also be managed via Insight, the Liability Driven Investments ("LDI") manager. The management of these exposures is implemented using a combination of a swap and derivative overlay and the interest rate and inflation characteristics of existing physical bond holdings within the portfolio.

The Trustee selected the strategic benchmark to reflect that the Scheme liabilities would change in value in a similar manner to changes in the level of the UK government bond markets. The Trustee expects that there will be a small return premium above government bonds from non-government bonds and a larger return premium from equity markets. The Trustee expects there will be periods when equities, property and credit underperform government bonds and is prepared (as is the Company) to accept this risk.

Implementation of the strategy is via a range of active investment managers whose roles are set out in the IIPD, as well as Insight (the LDI manager), directly held property and BlackRock (the passive currency manager). The Trustee uses Bank of New York Mellon as the overall custodian of the Scheme assets.

When considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of a suitability qualified investment advisor. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

Day-to-day Management

The Trustee implements its investment strategy by delegating the day-to-day management of the DB Section's assets to the Investment Managers. Details of the Investment Managers as well as their mandates are set out in the IIPD.

The Trustee employs more than one manager to limit the risk of one manager underperforming for a period for the Scheme as a whole.

The Trustee's policy on apportioning assets between the managers is to invest the assets such that the resulting asset allocation reflects the Scheme-specific benchmark.

Currency Hedging

BlackRock has been appointed as a passive currency manager for the Scheme. This is done by hedging 50% of the overseas equity exposure with Artemis, Calamos, Liontrust, Veritas and Schroder, plus hedging 100% of the overseas private debt exposure with Ares, Beachpoint, Hayfin, HIG Capital, MV Credit, Cordet, Bridgepoint, Neuberger Berman, Muzinich, Morgan Stanley and Ninety One, in the six major currencies: US Dollar, Canadian Dollar, Swiss Franc, Euro, Japanese Yen and Australian Dollar. The hedging arrangements, particularly the level of hedging and asset classes included, were developed in consultation with the Scheme's investment adviser.

Equity Protection

If from time to time and having taken advice, the Trustee believes they should be hedging some or all of the equity risk, P-Solve Investments Limited, a division of River and Mercantile Group, has been appointed to provide equity protection to the Scheme's exposure to equities through the use of derivatives.

Rebalancing

Under normal circumstances at the end of each calendar quarter, the actual bond/equity allocation will be reviewed. If the portfolio allocation is outside the agreed range for bonds then, under normal circumstances, the portfolio allocation will be moved back towards the neutral position. In order to reduce dealing costs, the allocation may not be rebalanced to the neutral allocation, but to 2% away from this position. Under normal circumstances, property and cash will not form a part of the rebalancing process. Any decision to not rebalance if the allocations fall outside of the stated ranges will not be deemed as a breach of this SIP.

4.3 Investment Risk

Before deciding to take investment risk relative to the liabilities, the Trustee receives advice from the Investment Consultant and Scheme Actuary and holds discussions with the Employer. In particular, the Trustee considers carefully the following possible consequences:

- The assets might not achieve the anticipated excess return relative to the liabilities. This would result in a deterioration in the DB Section's actuarial funding position and consequently higher contributions from the Employer than are currently expected.
- The relative value of the assets and liabilities will be more volatile than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the DB Section. This consequence is particularly serious if it coincides with the Employer being unable to make good the shortfall.
- This volatility in the relative value of assets and liabilities may also increase the volatility of the Employer's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

The Trustee's willingness to take investment risk, and the degree of investment risk, is dependent on the continuing financial strength of the Employer and their willingness to contribute appropriately to the DB Section. The financial strength of the Employer and their perceived commitment to the DB Section is monitored and the Trustee will consider reducing investment risk relative to the liabilities should either of these deteriorate.

The degree of investment risk the Trustee is willing to take also depends on the financial health of the DB Section and its liability profile. The Trustee monitors these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

In formulating the investment objective, the Trustee has also considered the risks to which the Scheme is exposed. A review of the Scheme's investment strategy was completed in 2019. The Trustee believes that the arrangements adopted represent a satisfactory trade-off between target return (net of all costs) and investment risk after taking into account the resources available to implement and monitor the arrangements.

In addition to targeting an appropriate overall level of investment risk, the Trustee seeks to spread risks across a range of different sources. The Trustee aims to take on those risks for which the Trustee expects to be rewarded over time, in the form of excess returns. The Trustee believes that diversification limits the impact of any single risk.

To implement the hedging strategy, the Trustee appointed a specialist LDI manager, who is responsible for managing interest rate and inflation hedging strategies for the Scheme.

Investment risk is measured by reference to the likely annual variation in return between the matching portfolio of investments and the investment arrangements adopted. A risk level of 10% p.a. would mean that the Trustee expects the return on the chosen strategy to be within 10 percentage points of the return on the matching assets two years out of three.

The risks identified below is not exhaustive, but covers the key risks considered by the Trustee to be financially material to the DB Section:

Currency risk

A risk where the Trustee does not expect excess returns over time is currency risk. As part of the most recent strategy review, the Trustee agreed to hedge 50% of its non-Sterling equity and 100% of its private debt currency exposure on a passive basis to the six major foreign currencies. This is implemented by BlackRock.

Credit risk

The DB Section is subject to credit risk as the Trustee elects to invest in bonds, OTC derivatives, has cash balances and enters into repurchase agreements. The DB Section also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The DB Section is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles. This risk is mitigated by investing in government bonds where credit risk is minimal and all other investments being of investment grade credit rated securities.

Liquidity risk

Exposes the Trustee from a lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss. Apart from the property and the private debt portfolios, the Trustee considers the pricing and dealing terms to be acceptable for a Scheme of its size.

Counterparty risk

The Trustee is also exposed to a risk associated with a counterparty to a financial contract not meeting its obligations. The derivative portfolio managed by Insight primarily restricts the collateral to UK investment grade government bonds and cash, except for three legacy derivatives whereby the collateral is restricted to North American and Western European investment grade government bonds and cash.

Operational risk

The Trustee mitigates operational risk, being the loss resulting from inadequate or failed internal processes, people, systems or external events, by monitoring and evaluating investment managers at regular intervals, reviewing the results of the control assurance reports from investment managers as part of the annual audit and segregation of funds for each asset class.

The Trustee has also considered various combinations of assets and investment management approaches that might minimise the required degree of risk for a level of return expectation consistent with the assumptions in successive actuarial valuations. The Trustee considers the risks highlighted above to be financially material and these risks are considered over the anticipated lifetime of the DB Section.

4.4. Responsible Investment and Corporate Governance

The Trustee believes that good stewardship and environmental, social and governance (“ESG”) issues may have a material impact on investment performance and risk, and that good stewardship can create and preserve value of companies and markets. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given its investment managers full discretion when evaluating ESG factors (including climate change considerations) and in exercising rights and stewardship obligations attached to the Scheme’s investments. This is in accordance with the investment managers own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. The Trustee has not set any restrictions on the appointed investment managers in relation to products or activities but may consider this in future.

The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new managers and monitoring existing investment managers. Monitoring is undertaken on a quarterly basis at Investment Sub-Committee meetings.

The Trustee does not currently explicitly consult members when taking account of the selection, retention and realisation of investments, but may consider ways to incorporate member views in future.

The Scheme’s voting rights are exercised by its investment managers in accordance with their own corporate governance policies and should take account of current best practice. The Trustee expects its FCA registered equity managers to comply with the UK Stewardship Code. The Trustee encourages its non-FCA authorized equity managers to adhere to the Stewardship Code on a best efforts basis. The Trustee may, from time to time, ask the Scheme’s Investment Managers to explain their corporate governance policy and practices, and review their voting activities. In particular the Trustee asks the Investment Managers to provide annual reports indicating the overall level of voting activity and detailing any instances where they have not voted in line with their stated policy.

4.5 Liquidity

With the DB Section being mature, the Trustee understands liquidity planning is becoming an important consideration, especially where the annual cash flow requirements can represent a significant proportion of the Section’s assets. The monthly cash outflows are currently more than the monthly cash inflows from contributions and therefore a specific investment strategy is followed to generate cash through no-reinvestment of dividends, bond maturities etc. The Trustee understands liquidity may become an increasing issue, particularly with the currency hedge programme and recognises that this will change over time and will be addressed when required.

5. Defined Contribution Section

5.1 Investment Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives.

The Trustee believes that most members do not have the detailed knowledge or desire to manage their pension investments. The Trustee regards it as its duty to make available (as the default investment option) a fund which:

- is suitable for most members;
- is dynamically managed; and
- has a risk and reward profile that reflects the period until its participating members reach retirement age.

The Trustee also regards its duty to be making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs if they wish to do so. The Trustee has developed an objective to group these investments into 'tiers' based on the amount of member involvement required in investment management.

The investment objective of each Target Date fund (default fund) is designed and managed for an investor saving to retire in or around the years stated in its name (the "target date"). The investment manager's aim is to maximise, for a typical such investor, their eventual retirement income while taking account of their decreasing capacity to afford losses as they approach and, possibly, go past the target date of retirement. On retirement, the investor is assumed to use their built-up pension savings to provide pension income from the options available when they retire. The Target Date funds will progressively move from riskier, capital growth–oriented assets such as equities and property, into lower-risk retirement income protection oriented assets, such as bonds, as it approaches and passes its target date. The investment manager seeks to ensure that the mix of assets remains appropriate given the Target Date Fund's aim and will also employ a dynamic asset allocation strategy which seeks to mitigate the effects of large market movements without detracting from long-term returns. The manager will manage the Target Date Funds in such a way that, for an individual investing over the whole term of each Target Date Fund, a return of CPI plus 4% per annum is targeted.

A review of the default strategy and the performance of the default funds was undertaken during the 2021 Scheme year against the aims and objectives as set out in this SIP. The review included the following key areas:

- Value of Assets in the TDFs
- Commentary submitted by Alliance Bernstein including performance & asset allocation decisions
- Fees & Charges
- Details of performance of all Tier 2-4 Funds
- Consideration of whether all TDF Vintages had outperformed or underperformed their objective

Overall, the review concluded that the default strategy and its returns remain consistent with the Trustee's objectives as set out in the SIP and that TDFs remain an appropriate default investment vehicle for the Scheme. The Trustee did recognise the challenging environment of very low interest rates and very high inflation and is currently considering what role illiquid assets may perform in the Glidepath. Details of any changes to the Glidepath will be reported in the final version of the SIP if required.

5.2 Investment Risk

The Trustee has considered risk from a number of perspectives in relation to the DC section, including the default option. The list below is not exhaustive, but covers the main risks considered by the Trustee to be financially material.

Risk	How it is Managed	How it is measured
Market Risk The risk that low investment returns over members' working lives or unfavourable market movements in the years just prior to retirement will secure an inadequate pension.	The Trustee provides members with a range of funds, across various asset classes, including actively and passively managed options. Members are able to set their own investment strategy in line with their aims and risk tolerances.	The performance of the available funds is monitored on a quarterly basis.
Interest Rate Risk The risk that unfavourable interest rate movements, particularly in the years just prior to retirement may lead to a reduction in the pension that the member's retirement account can secure.	The Trustee provides members with a range of funds, across various asset classes, which will have varying sensitivities to interest rate risk.	The performance of investment funds and market fundamentals, including interest rates, are monitored on a quarterly basis. This helps the Trustee understand the effect that changes in interest rates are having on the funds.
Inflation Risk The risk that investments do not keep pace with inflation.	The Trustee provides members with a range of funds, across various asset classes, which have varying exposure to inflation risk. These include inflation index linked funds, as well as equities which are generally viewed to have inflation hedging properties.	Quarterly performance reports consider the long-term performance of the funds to help the Trustee assess whether the returns have kept pace with inflation.
Manager Risk The risk that the chosen underlying investment manager underperforms the benchmark against which the manager is assessed.	In particular, the Trustee has considered the risk that active managers may underperform, whereas passive managers are likely to achieve a return close to any chosen benchmark. The Trustee believes active management skills exist and can be identified but not with complete certainty. As such the Trustee makes available to members both actively managed and passively managed funds.	The Trustee considers the ratings of investment strategies from their DC Investment Consultant during the selection process. It is the Trustee's policy to monitor performance and rating of funds on an ongoing basis relative to the fund's benchmark and stated targets/objective.

Risk	How it is Managed	How it is measured
Mismatch Risk The risk that the financial assets a member is invested in as they approach retirement are not suited to the way they will access their retirement benefit.	The Trustee has made available to members a range of funds including shares, cash and bond funds that can be selected by members as they approach retirement. The default option follows a lifestyle strategy which progressively switches to assets the Trustee expects will be less volatile to reduce mismatch risk for members targeting income drawdown.	It is the Trustee's policy to monitor performance and rating of funds on an ongoing basis and identify how the characteristics of certain funds are suitable for different retirement options.
Liquidity Risk The risk that assets may not be readily marketable when required.	The pooled funds in which the Trustee allows members to invest provide the required level of liquidity. Units in the pooled funds in which the Scheme invests are believed to be readily redeemable.	When considering new investment options or reviewing existing options, the Trustee considers the pricing and dealing terms of the underlying funds.
Concentration Risk The risk that a portfolio has an over-allocation to a single asset class, sector, country or counterparty, thereby having a high exposure to non-systemic risk factors.	The Trustee has made a range of funds available to members, so that they can choose to invest in a well-diversified portfolio. The range of funds enables diversification by asset class (e.g. equity, bonds, cash), by region and includes both passively and actively managed funds, which can help achieve diversification.	It is the Trustee's policy to monitor performance and rating of funds on an ongoing basis. The Trustee also periodically reviews the default investment option and self-select range, and as part of this considers the correlations or similarities between the available funds.
Sponsor Risk The risk that the sponsoring company of the Scheme will cease financial sponsorship.	The Trustee has considered the risk that the Company may be unwilling or unable to continue to contribute to the Scheme in the future.	The Trustee has concluded that this risk is acceptable and that no further action is necessary to mitigate this risk at the current time. The Trustee will review this position in the event of any material changes in the circumstances of the sponsor.
Exchange Rate Risk The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.	With a diverse spread of assets geographically, the Trustee accept that there is a degree of risk for members as a result of varying sensitivities of fluctuating exchange rates.	Monitoring the performance of investment funds on a quarterly basis, including quarterly market reviews considering the movements in foreign currencies relative to pound sterling.
Environmental, Social and Governance Risk ESG factors can have a significant effect on the performance of the investments held by the Plan, e.g. extreme weather events, poor governance.	The Trustee's policy on ESG risks is set out in Section 5.7 of this Statement.	As set out in Section 5.7, monitoring is undertaken on a regular basis and is documented annually.

The items set out in this section of the SIP are those that the Trustee considers to be financially material considerations in relation to the Defined Contribution Section and the default investment arrangement. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire. Members are reminded to review the suitability of their investment choices via their annual benefit statements and other Scheme communication.

5.3 Investment Strategy

The Trustee believes that the objectives disclosed in chapter 5.1 are best met by, and the risks identified in chapter 5.2 are best managed by, a default range of Target Date Funds which are linked to a target retirement age of 65 for each particular member and by offering members a range of investment vehicles from which to choose. The current range has been grouped into four 'tiers' (1 to 4) with increasing levels of member involvement required. The range offered in each tier will be reviewed periodically and changed in response to appropriate member demand.

The composition of each tier is summarised as follows:

- Target Date Funds
- Diversified growth / multi asset investment funds (including a fund which has a high ESG rating)
- Single Asset Funds (Equity Funds, Bond Funds and Diversifiers/ Alternatives)
- Any other fund from the 'Corporate Investment Services' range on the fund administrator's platform

Members are free to choose any of the above funds. They can invest in one or more tiers and they can elect for their accrued funds to be invested differently from the future contributions.

The investment strategy of the Defined Contribution Section and the default funds will be reviewed at least every three years and without delay after any significant change in investment policy or to the demographic profile of relevant members.

5.4 Investment Management Structure

The Trustee has appointed AllianceBernstein as investment manager of the Target Date Funds. All funds (in all four tiers) are administered on the Mobius Life platform. Details of fund objectives can be accessed at www.abfpensions.com/dc.

5.5 Monitoring the investment manager and platform provider

The Trustee monitors the performance of the tier 1, tier 2, and tier 3 investment options – and tier 4 investment options which the Trustee has made available – on a regular basis. The Trustee also monitors the effectiveness of the platform provider. To assist the Trustee, the platform provider regularly supplies the Trustee with unit reconciliations and fund factsheets.

5.6 Investment restrictions

As the assets of the Defined Contribution section are invested in pooled fund vehicles the investment restrictions applying to these funds are determined by the investment manager. The Trustee is satisfied that the investment manager's policy on investing in individual securities held in each vehicle provides adequate diversification of investments.

5.7 Responsible Investment and Corporate Governance

The Trustee believes that environmental, social and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

That said, the Trustee has elected to invest in pooled funds and cannot therefore directly influence the ESG policies, as well as the ethical policies and practices of the companies in which the pooled funds invest.

However, the Trustee expects the underlying managers to evaluate ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The DC Investment managers acknowledge that ESG issues are recognised as having an impact on the investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

The governance approach used by the DC investment managers is to incorporate this through "integration", whereby a bottom-up integration of ESG factors into the research and investment process is key to identifying investment risks as well as opportunities.

The method for implementing this is via a two-pronged approach to active ownership:

1. By engaging directly with equity and bond issuers as part of the research process, and
2. By utilising the in-house proxy voting policy which incorporates ESG factors.

The Trustee accepts the investment managers' policy on the voting rights attached to investments.

The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by the Investment Sub-Committee and documented annually.

These policies apply across the range of investment options made available to members including the default investment arrangement and the self-select investment fund range.

Member views have not explicitly been taken into account in the selection, retention and realisation of investments, although feedback received from members is welcomed and considered by the Trustee. However, specialist funds have been added to the fund range to cater for members who wish to invest their assets accordingly e.g. the HSBC Islamic Global Equity Index and the Legal & General Ethical Global Equity index.

6. Additional Voluntary Contributions

6.1 Defined Benefit Arrangements

Existing AVC payers

DB Members that commenced paying AVCs prior to 1 October 2012 with legacy AVC funds held with Standard Life, Clerical Medical, Prudential, Phoenix Life (formerly London Life) and ReAssure Life (formerly Guardian Assurance) have an option to continue investing DB AVCs with these legacy providers and they are invested in the following range of funds:

- Balanced Funds
- Cash Funds
- Ethical Funds
- Managed Funds
- Money Market Pension Fund

- Unit Linked Funds
- With Profit Funds

Critical yield analysis was carried out by Mercer and the Pensions Department on the existing legacy funds and the results were shared with Trustee. The Trustee decided that members should be given a choice to either retain their AVC holdings in the legacy AVC Funds or transfer their AVC funds into the range of investment options as per section 5.3 of this document. Communication was issued to members and some members chose to remain invested in the legacy funds, as they are mainly invested in the with profit funds that have guaranteed returns or annuity rates.

New AVC payers

For the DB members that applied to start paying AVCs from 1 October 2012, the Trustee has made available the investment fund range referred to in chapter 5.3 and applies to all new AVC Investments.

7. Other assets

The only other Scheme assets relate to un-invested cash, maintained for the day-to-day management of the Scheme. This is managed by Associated British Foods Pensions Department, liaising with the Company's Treasury Management division to ensure a market rate of interest is obtained.

8. Realisation of Investments

In general, the Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, subject to not exceeding the Trustee's powers as set out in the Trust Deed and Rules. The Investment Managers are responsible for generating any cash required for benefits and other expenditure on the instructions of the Trustee.

9. Aligning Manager Appointments with Investment Strategy

The Managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustee looks to Mercer, where appropriate, for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. Mercer's manager research ratings assist with due diligence (and questioning the investment managers during presentations to the Trustee) and are used in decisions around selection, retention and realisation of manager appointments. The Trustee will consider how ESG and stewardship are integrated into the investment process as well as ensuring fees are competitive within the asset class. If the investment objectives for a particular Manager's fund change, the Trustee will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustee's investment objectives. The Trustee accepts that it has no ability to specify the risk profile and return targets of the Manager. Such issues are taken into consideration when selecting and monitoring the Managers to align with the overall investment strategy requirements.

10. Incentivising Managers to consider Long-Term Financial and Non-Financial Performance

The Trustee has considered how each Manager embeds ESG into its investment process and how the Manager's responsible investment philosophy aligns with the Trustee's beliefs around responsible investment. This includes the Managers' policy on voting and engagement (where relevant). The Trustee will use this assessment in decisions around selection, retention and realisation of Manager appointments where applicable.
The Trustee meets with the investment managers periodically and can challenge decisions made including voting history and engagement activity to ensure the best performance over the medium to long term.

The Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then they will consider replacing the Manager.

11. Evaluating Investment Manager Performance and Remuneration

The Trustee receives investment performance reports from Mercer on a quarterly basis, which present performance information over 1 quarter, 6 month, 1 year, 3 year and 5 year periods. As well as considering each manager's style over the course of an economic cycle, the Trustee reviews absolute performance and in many cases relative performance against a suitable index used as a benchmark. The Trustee's focus is primarily on long-term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or portfolio management team;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to Mercer's rating of the manager.

The investment managers are generally remunerated by way of a fee calculated as a percentage of assets under management. If managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustee may ask managers to review the Annual Management Charge or decide to switch managers.

12. Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. For all funds apart from the Private Debt contracts, there is no set duration for the manager appointments. The Trustee will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate

13. Portfolio Turnover Costs

The Trustee asks investment managers to include portfolio turnover and turnover costs in their presentations and report to the Trustee. The Trustee also receives MiFID II reporting from their investment managers. All reporting is analysed to ensure consistency between reporting periods and any inconsistencies are investigated with the investment manager. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. For the DC Section, the Trustee considers portfolio turnover costs as part of the annual value for money assessment.

14. Compliance with this Statement

The Trustee will monitor compliance with this Statement periodically. The Investment Managers are provided with copies of this Statement periodically. The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Principal Employer which they judge to have a bearing on the stated investment policy. This review will occur no less frequently than triennially to coincide with the Actuarial Valuation. Any such review will again be based on written expert advice and will be in consultation with the Principal Employer.

The monthly cash out flows are currently more than the monthly cash inflows from contributions and therefore a specific investment strategy is followed to generate cash through non-reinvestment of dividends, bond maturities etc.