AMNESTY INTERNATIONAL SUPERANNUATION SCHEME – DB SECTION

STATEMENT OF INVESTMENT PRINCIPLES

JANUARY 2022

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1 INTRODUCTION

This Statement of Investment Principles ("the Statement") has been prepared by the "Trustees", as Trustees of the Amnesty International Superannuation Scheme, ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles. It replaces the Statement dated August 2020.

In preparing the Statement, the Trustees have:

- obtained and considered written advice from a suitably qualified individual, employed by their investment Adviser, Mercer, whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, although it affirms that no aspect of its strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees' investment policy for the Scheme.

The Scheme is Exempt Approved and consists of two sections; the Final Salary/Defined Benefit (DB) section and the Money Purchase/Defined Contribution (DC) section. This statement covers the Final Salary/DB Section.

The Trustees previously reviewed this Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. However, as the Scheme's DB assets are now engaged in a Bulk Purchase Annuity (BPA) the review may be less frequent.

Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In order for the Trustees to ensure that they can meet their obligations to the beneficiaries both in the short and the long term without recourse to the Sponsoring Employer, the Trustees have entered into a BPA with Legal and General Assurance Society Limited (LGAS).

LGAS is an insurance company authorised and regulated by the Prudential Regulation Authority. The policy has not been structured with an expected return in mind, but instead aims to exactly match the Scheme's benefit obligations.

3 INVESTMENT RESPONSIBILITIES

3.1 TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the Investment Managers and investment adviser
- The assessment and review of the performance of each investment manager
- The choice of appropriate funds with the investment managers
- The assessment of the risks assumed by the Scheme at a total scheme level as well as on a manager by manager basis
- The approval and review of the asset allocation benchmark for the Scheme
- The compliance of the investment arrangements with the principles set out in the Statement

However, as the Scheme's DB assets are now engaged in a BPA, some of the above matters may not be relevant.

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees have appointed Mercer as the investment adviser to the Scheme. Mercer provides investment advice as required by the Trustees, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which Mercer usually expects to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Setting cashflow management (investment and withdrawal) policies

However, as the Scheme's DB assets are now engaged in a BPA, some of the above matters may not be relevant.

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions. However, the Trustees recognise that they retain responsibility for all such decisions.

Mercer primarily charges on a time-cost basis.

In particular, Mercer does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice.

The Trustees are satisfied that this is the most appropriate adviser remuneration structure for the Scheme.

Mercer is authorised and regulated by the Financial Conduct Authority (FCA).

3.3 INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES

The Trustees, after considering appropriate investment advice, have entered into a BPA with LGAS. LGAS have underwritten the Scheme's liabilities, and will therefore invest in such a manner to ensure that the liabilities will be paid when they fall due.

The Trustees paid an initial premium to LGAS in November 2021. There are no ongoing fees in respect of the policy, although there may be an additional premium to pay once the data cleanse has been completed.

There is no performance related fee associated with the buy-in policy.

LGAS is authorised and regulated by the PRA, and regulated by the FCA; further, the company adheres to Solvency II Capital Requirements regulation.

The primary responsibility of LGAS is to ensure that the correct amount as specified under the BPA is paid to the Scheme.

As the DB assets do not have any appointed investment managers, the Trustees do not currently need to consider how manager appointments are aligned with investment strategy, how managers are incentivised to consider long-term financial and non-financial performance, how managers are evaluated and remunerated, portfolio turnover costs, or manager turnover.

3.4 SCHEME ACTUARY'S DUTIES AND RESPONSIBILITIES

The Scheme Actuary's responsibilities include the following:

- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

4 INVESTMENT STRATEGY

4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy, a bulk annuity, after considering their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees have also received written advice from their Investment Adviser. Under the contract, LGAS will provide payments to the Scheme in line with the benefits promised under the BPA agreement.

The rationale for this approach is to secure the DB benefits of the Scheme and ensures that all benefits will be met whilst removing the risk of any shortfall in benefits, which could occur if the Sponsoring Employer ever became insolvent or was no longer able to support the Scheme. It also protects the Scheme from potential placement into the Pension Protection Fund (removing the risk of capped benefits). In doing so, it provided a more exact match for inflation and interest rate risks compared to the Scheme's previous investment strategy. Further, other material risks (e.g. longevity risk) are mitigated.

Currently the BPA is a 'Buy-In', which means that it remains a Scheme investment and LGAS have taken responsibility for paying the benefits as specified in the BPA agreement. The Trustees are undertaking a data cleansing stage, to ensure the Trustees and LGAS are confident that all liabilities have been correctly addressed. After the data cleansing process has been completed, the individual policies will be assigned to the Scheme's DB members and the responsibility for paying the DB pensions will be fully transferred to LGAS.

The BPA is non-surrenderable and is therefore a long term commitment which will not be changed in future.

4.2 TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to the BPA.

As previously mentioned, LGAS are responsible for paying the Scheme's liabilities as set out within the BPA agreement. LGAS solely determines the underlying asset allocation backing the BPA. The Trustees are not explicitly responsible for overseeing the underlying asset allocation.

4.3 FINANCIALLY MATERIAL CONSIDERATIONS

The Trustees understand that they must aim to consider all factors that have the ability to impact the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, Environmental, Social and Governance (ESG) factors.

The Trustees recognise that ESG factors, including climate change, can influence the long term investment risk and return outcomes of the Scheme's portfolio and in normal circumstances it would be in members' and the Scheme's best interests that these factors are taken into account within the investment process and that ESG risks are identified and managed appropriately.

However, as the Trustees have entered into a BPA with an insurer, the Trustees are satisfied that it is appropriate not to embed ESG considerations into the Scheme's investment strategy.

4.4 NON-FINANCIAL MATTERS

The Trustees only consider factors that are expected to have a financial impact on the Scheme's investments. The Trustees do not explicitly take into account non-financial matters in the selection, retention and realisation of investments.

4.5 STEWARDSHIP

The Trustees have concluded that the decision on how to exercise voting rights should be left with LGAS, who will exercise these rights in accordance with their published corporate governance policies.

If the Trustees are specifically invited to vote on a matter relating to corporate policy, they would exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.

5 RISK

Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These have been managed by adopting a BPA.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- This has been managed by adopting a BPA to remove the risk of investment managers underperforming.

Liquidity Risk

- This is monitored according to the level of cash flows required by the Scheme over a specified period.
- This has been managed by adopting a BPA to pay the Scheme's pensions as they fall due.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- This has been managed by adopting a BPA.

Environmental Risk

- This risk that improper, or inadequate, consideration of environmental factors could lead to adverse investment performance and / or reputational damage to the Plan.
- The day to day management of environmental risk is the responsibility of the companies in which the Scheme's annuity provider has invested. The Trustees will rely on LGAS to ensure that these companies have sufficient procedures and processes in place in order to mitigate this risk as far as is reasonably possible.

Social Risk

- This is the risk that social factors are not properly considered within the investment decision making process. Social risks can arise both within and external to a company, e.g. internal factors could include workplace health & safety whilst external factors may include a company's impact on the area surrounding their place of business.
- The day to day management of social risk is also the responsibility of the companies in which the Scheme's annuity provider invest. The Trustees will rely on LGAS to ensure that these companies have sufficient procedures and processes in place in order to mitigate these risks as far as is reasonably possible.

Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the annuity provider, who will exercise this right in accordance with their published corporate governance policies.

Sponsor Risk

- This is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- The Trustees have removed this risk by entering into a BPA.

Legislative Risk

- This is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- This is the risk that is associated with the inability of a borrower to repay, in full or part the monies which it owes to a creditor.
- The Scheme is exposed to direct credit risk in respect of the BPA with LGAS, in the event of LGAS failing. In order to manage this risk, the Trustees have carried out appropriate due diligence when selecting LGAS and the Trustees note that there are considerable protections through the regulatory regime that apply to insurance companies.

Market Risk

- This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk *(note that all of these risks have been mitigated by the BPA)*:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the Scheme may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Trustees have removed this risk by entering into a BPA.

Interest Rate Risk

- This is the risk that an investments' value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.
- The Trustees have removed this risk by entering into a BPA.

Other Price Risk

- This is the risk that principally arises in relation to the return seeking portfolio, which invests in equities and DGFs.
- The Trustees have removed this risk by entering into a BPA.

6 MONITORING OF INVESTMENT ADVISER AND MANAGERS

6.1 INVESTMENT ADVISER

The Trustees continually assess and review the performance of its adviser in a qualitative way.

6.2 INVESTMENT MANAGERS

There is no investment performance to monitor in relation to the Scheme’s DB assets.

6.3 PORTFOLIO TURNOVER COSTS

As the Scheme has entered into a BPA, the Trustees do not monitor turnover costs, or define or monitor an appropriate turnover range for the Scheme.

7 CODE OF BEST PRACTICE

The Trustees note that in March 2017, the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustees have worked with their investment adviser to ensure that the Scheme has complied with the guidance as far as is appropriate to the Scheme’s circumstances. Now that the Scheme’s liabilities have been secured through a BPA with LGAS, the Trustees note that the much of the guidance is no longer relevant.

8 COMPLIANCE

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement is also supplied to the Sponsoring Employer, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles supersedes all others and was approved by the Trustees on 7th January 2022.