

STATEMENT OF INVESTMENT PRINCIPLES

OF THE SANTANDER (UK) GROUP PENSION SCHEME

April 2021

Background

- 1 Trustees of pension funds are required to prepare a statement of principles governing investment decisions and review it at least every three years or after any significant change in investment policy. This document contains the statement for the Santander (UK) Group Pension Scheme (“the Scheme”) and is prepared by Santander (UK) Group Pension Scheme Trustees Limited (“the Trustee”).
- 2 The Scheme participates in the Santander (UK) Common Investment Fund (“the CF”) and therefore key investment decisions are taken by the Trustee of the CF (“the CF Trustee”). The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme only provides final salary benefits, following the transfer of the money purchase section to Master Trust in October 2020.
- 3 In preparing this document, the Trustee has consulted the person duly appointed by the Employer and participating employers (“the Company”) as their representative for this purpose. The ultimate power and responsibility for deciding the investment policy, however, lies solely with the Trustee.
- 4 The Trustee has obtained and considered the written advice of a person who is reasonably believed by the Trustee to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. This document will be reviewed at least every three years or immediately after any significant change in investment policy.
- 5 Under Section 36(3) of the Pensions Act 1995 (as amended), before investing in any manner, trustees must obtain and consider proper advice on the question whether the investment is satisfactory having regard to the requirements of regulations under subsection (1), so far as relating to the suitability of investments, and to the principles contained in the statement under section 35. It is generally accepted that this includes “managed”, “balanced” or “pooled” funds where trustees have selected a single fund and where the manager has no discretion to invest in other vehicles. The Trustee has obtained and considered this advice. The governing documents of the CF require the CF Trustee to comply with Section 36 of the Pensions Act 1995 (as amended) and associated regulations as if the CF was an occupational pension scheme. The Trustee will review whether the investment in the CF continues to be satisfactory from a Section 36 perspective on an annual basis.
- 6 The Trustee intends to comply with any applicable legislation regarding investment of the assets. The Trustee also intends to comply with any legislation regarding scheme funding and will consult the Scheme Actuary and liaise with the Company on matters requiring employer agreement or consultation.

Investment Governance

- 7 The Trustee can invest in bulk annuity policies with a reputable insurer to match the underlying liabilities of the insured members. The Trustee has also entered into a longevity swap to hedge a proportion of the pensioner liabilities. These policies will be held as investments of the Scheme. For the Scheme's other assets (excluding the bulk annuity policies and longevity swap) the Trustee has decided to achieve its investment objectives by participating in the CF.

The CF Trustee is responsible for setting, implementing and monitoring investment strategy, operating in accordance with its Statement of Investment Policy. The Trustee will review this Statement, the CF Statement of Investment Policy and the Scheme's participation in the CF at least once a year or prior to a significant change in investment policy.

- 8 The strategic asset allocation structure, including benchmarks and constraints of the CF will be subject to a formal review process on a regular basis. This will include a review in conjunction with the Scheme's funding position on a 3-yearly basis.
- 9 The Trustee receives regular information from the CF Trustee to enable them to monitor the CF.

Investment Objective

- 10 The principal duty of the Trustee is to act in the best interests of the beneficiaries of the Scheme.

- 11 In light of this duty, the Trustee's objectives, as communicated to the CF Trustee, are:

- to maintain a portfolio of assets of appropriate suitability, quality, security, liquidity and profitability which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of current and future benefits which the Scheme provides, as set out in the Rules of the Scheme;
- to limit the risk of the assets failing to meet the liabilities;
- to invest in a manner appropriate to the nature and duration of the expected future retirement benefit payments under the Section; and
- to minimise the long-term cost of the Scheme by maximising the return on the assets, net of fees and expenses, whilst having regard to the objectives shown above.

In addition, the Pensions Act 2004 (as amended) requires that the Trustee maintains a Statement of Funding Principles, stating the methods and assumptions used in calculating the amount required to make provision for the Scheme's liabilities, and the manner and period in which any shortfall will be remedied. The Trustee will consult with the Scheme Actuary and the Company when deciding upon the appropriate response to any shortfall.

The Trustee considers that the investment policy pursued by the CF is consistent with its obligations under the scheme funding legislation. In addition, the Trustee will review the CF's investment policy in light of actuarial valuations, certificates and schedules of contributions produced in order to comply with the requirements of the Pensions Act 2004 (as amended).

Asset Allocation

- 12 Strategic asset allocation is seen as an important aspect of the work of the CF Trustee and details (excluding any bulk-annuity assets and longevity swap owned by the Scheme) are contained in the CF Statement of Investment Policy.
- 13 When deciding upon the long-term strategic asset allocation, the CF Trustee will be mindful of the need for the Scheme to hold sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investment policy, where possible.
- 14 The CF Trustee's investment policy is to seek to achieve the objectives through investing in a suitably diversified mixture of real (e.g. equity) and monetary (e.g. fixed interest) assets. The CF Trustee recognises that the returns on real assets, while expected to be greater over the long-term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the Company.
- 15 The CF must invest in assets that consist predominantly of investments admitted to trading on regulated markets. Investment in assets which are not admitted to trading on such markets must be kept at a prudent level.
- 16 The CF must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and to avoid accumulations of risk in the portfolio. Investment in assets issued by the same issuer or by issuers belonging to the same group must not expose the Scheme to excessive risk concentration.
- 17 The CF Statement of Investment Policy will set out a governance framework for the use of derivatives within the CF.

Risk

- 18 The Trustee expects the CF Trustee to recognise, and monitor, several risks involved in the investment of the assets of the Scheme. The Trustee may undertake additional risk monitoring if it considers that this would be appropriate and would assist in its communications with the CF Trustee.

In recognition of this, the CF Trustee will consider the following risks for the CF with regard to its investment policy and the Scheme's liabilities:

Not achieving the target returns – this is addressed through:

- Diversification of the return-seeking assets
- Monitoring risk – such as Value-at-Risk
- Regularly reviewing the participating Sections' funding levels

The CF Trustee considers risk reporting each quarter in respect of estimated total investment risk being taken within the CF relative to the liabilities.

Interest rate risk The CF Trustee has agreed liability benchmarks that reflect the sensitivities of each section's liabilities to interest rate risk. The CF Trustee

invests a portion of each section's assets in instruments that are designed to match an agreed portion of these sensitivities.

Inflation risk The CF Trustee has agreed liability benchmarks that reflect the sensitivities of each section's liabilities to inflation risk. The CF Trustee invests a portion of each section's assets in instruments that are designed to match an agreed portion of these sensitivities.

Market risk The CF Trustee ensures that the CF's assets are spread across a range of different investments. Risks are only taken where they are expected to be rewarded, through appropriate investment returns or portfolio diversification. The CF Trustee regularly monitors the CF's exposures to different market risk factors.

Manager risk The CF Trustee monitors each of the CF's managers' performance on a regular basis. The CF Trustee has a written agreement with each manager, which contains a number of restrictions on how each manager may operate. The monitoring of manager performance may be delegated.

Liquidity risk The CF invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the CF's and the Scheme's cash flow requirements. The CF's and the Scheme's respective administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Operational risk The CF Trustee conducts thorough due diligence on all third-party service providers to ensure that processes, procedures and systems are robust, documented and operated by appropriately qualified individuals.

Legal risk The CF Trustee ensures that all advisers and third-party service providers that it appoints are suitably qualified and experienced. The CF Trustee ensures that a formal legal review is conducted before appointing third-party service providers. Suitable liability and compensation clauses are included in all contracts for professional services.

Corporate Governance risk It is measured and managed by regular reviews of concentration and regular discussions with the investment managers regarding corporate governance risk.

Political risk It is reduced by diversification of the assets across many countries and is managed by the regular assessment of the levels of diversification within the existing policy.

Custodian risk It is addressed through the agreements with the custodian and ongoing monitoring of the custodial agreements. Restrictions are applied to those persons able to authorise transfer of cash and the accounts to which transfers can be made.

Security risk It is addressed by having the custodian hold all assets on behalf of the CF, including collective investments. Monitoring of the custodian is outlined above.

Counterparty risk The CF Trustee controls counterparty risk by limiting the credit rating of counterparties it will transact with and the maximum allowable exposure to any single counterparty.

The CF Trustee regularly monitors the CF's exposure to each counterparty.

Currency risk The Scheme's liabilities are denominated in sterling. The CF may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. The CF may manage its currency exposure by hedging currency risk.

Longevity risk It is addressed by the Trustee purchasing bulk annuity policies which protects the Scheme against the risk that the insured members live, on average, longer than expected. The Trustee has also entered into a longevity swap covering a proportion of the pensioner liabilities, which protects the Scheme against the risk that these members live longer than expected.

Sponsor Investment Risk The CF Trustee does not invest in Banco Santander or its affiliated entities' equity or debt unless such investments are made indirectly through pooled funds.

- 19 The Trustee will monitor the employer support risk – the risk that the Company may withdraw or substantially weaken its covenant with the Trustee to support the Scheme – addressed by: the Trustee's Covenant Advisors, regular dialogue between the Trustee and the Company and receipt by the Trustee of twice yearly presentations from the Company on its results.

Investment Managers and bulk annuity providers

- 20 The CF Trustee's policy is to delegate day-to-day management of the Schemes' assets to fund managers, as detailed in the CF Statement of Investment Policy.

The Trustee has entered into a bulk annuity policy with Aviva plc which provide payments to match the pensions payable to the underlying liabilities insured by the policy.

The Trustee has entered into a longevity swap with Zurich Assurance Ltd, which will match the pensions payable to the underlying liabilities covered by the longevity swap agreement.

Borrowing

- 21 The Trustee, the CF Trustee and the investment managers may not borrow money or act as guarantor except where necessary for the purpose of providing temporary liquidity.

Additional Voluntary Contribution Funds (AVCs)

Assets in respect of each member's additional voluntary contributions are invested in a range of pooled funds.

- 22 Assets in respect of contributions paid by the Company to secure additional benefits for individual members on a "money-purchase" basis are invested in pooled funds managed by Legal & General Investment Management ("LGIM").

- 23 Additional voluntary contributions can be invested in one or more of six funds with LGIM providing exposure to a range of asset classes, including equities, property and bonds.

- 24 Some members of the Scheme continue to have their funds invested with Phoenix Life or in a in a Legal & General Assurance Society AVC policy.

- 25 In addition, the Scheme has several annuities with Legal & General (which relate to pensioners who retired under a former scheme before 1987).
- 26 The Trustee has regard to the historical rates of return earned on the various classes of asset available for investment and their corresponding volatilities in assessing the choices offered to members.
- 27 The members' accounts are held in funds which are sufficiently liquid to be realised to provide pension benefits on retirement, death or earlier transfer to another pension arrangement.
- 28 The Trustee has taken advice from the Scheme's Investment Consultant to ensure that the funds are appropriate for the Scheme.

Financially material considerations, including environmental, social and corporate governance ("ESG") considerations and responsible ownership – general

- 29 The Trustee has a long-term investment horizon. It believes that an appropriate assessment of factors such as sustainable growth, environmental and climate change impacts, as well as other social and governance considerations, will help to better achieve the objectives set and improve outcomes for members and beneficiaries through enhanced long-term returns and management of arising risks in respect of the Scheme's assets.
- 30 The Trustee also believes that investors who are responsible owners, and who engage, support better outcomes for the companies they invest in and ultimately enhance their investments by using their rights as shareholders influencing more sustainable corporate strategies, performance, risk management, capital structure, tax transparency and corporate governance, including culture, diversity and remuneration, potential conflicts of interest and social and environmental impact. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings. The Trustee will also monitor its supply chain for modern slavery risk.
- 31 As most of the assets of the Scheme are invested in the CF, the CF Trustee has primary responsibility for giving effect to the Trustee's policy on financially material considerations and responsible ownership. Specifically:
 - Where an investment manager or fund is being considered for appointment or investment, the Trustee expects that the CF Trustee will have regard to that manager or fund's policies on financially material considerations, so far as relevant to its mandate, when deciding whether they should be selected. The Trustee also expects the CF Trustee to monitor how investment managers and funds take account of financially material considerations as part of their investment process, so far as relevant to their mandate.
 - Consistent with the Trustee's views, the CF Trustee expects its rights as an investor to be exercised by the investment managers appointed by it or by the funds in which it invests. These managers are better positioned to drive engagement initiatives, directly interacting with the companies in their portfolios and exercising voting rights and acting alongside other investors, investment managers and stakeholders where appropriate. The CF Trustee requires investment managers to report on their stewardship policies, proxy voting and engagement initiatives as part of

their initial assessment and on-going monitoring, so far as relevant for their mandate.

Non-financial matters

- 32 In setting investment strategy the Trustee acts in the best financial interests of the Scheme's beneficiaries as a whole. Given this primary fiduciary duty as well as the significant practical and cost implications, the Trustee does not explicitly take into account the views of individual beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters. The Trustee will keep good practice in this area under review.

Arrangements with fund managers and pooled funds

- 33 The Trustee expects that, where a segregated account is used, the CF Trustee should normally ensure that the arrangement with the fund manager is negotiated by the CF's Investment Consultant on a case by case basis and will be bespoke to the strategy and asset class of the investment. Before an investment is made in a pooled fund, the objectives of the pooled fund should be reviewed by the CF's Investment Consultant to assess their consistency with the Trustee's overall investment objectives
- 34 Arrangements can include certain restrictions on geographies, sectors, credit ratings or individual security limits amongst other restrictions, which align the CF Trustee's investment beliefs and risk appetite with the fund manager or pooled fund. It is expected that these restrictions are reviewed and reported on by the CF's Investment Consultant.
- 35 Formal engagements will be performed regularly and throughout the investment lifecycle, with poor performance or breaches of restrictions potentially leading to termination of the arrangement or disinvestment.
- 36 Arrangements may include performance related remuneration, payable for financial performance above an agreed threshold, over a specified period. This may include "high water marks" to help to ensure that sustained favourable performance is rewarded rather than short term success.
- 37 The fund manager will be incentivised by a combination of remuneration and the commercial benefit of maintaining an ongoing relationship. The CF Trustee may choose to terminate arrangements where there is no clear alignment of strategy or investment beliefs.
- 38 As part of the initial due diligence, it is expected that the CF's Investment Consultant will consider the general management style and ESG credentials of asset managers and pooled funds, where relevant to their mandates. This should include their engagement with underlying issuers of debt or equity, as well as portfolio turnover, where relevant.
- 39 It is expected that this activity will be repeated regularly and will be reported back to the CF Trustee, together with assessments on the ESG momentum of the fund manager or pooled fund.
- 40 Where appropriate, investment objectives may include a reference to returns over financial periods which are consistent with a medium to long-term investment approach.
- 41 The financial performance of fund managers and Pooled Funds is independently calculated (net of fees) by a third party and is reported on a

quarterly basis. Part of this reporting includes long-term performance against both specified targets and benchmarks.

- 42 The Trustee expects that turnover costs should be monitored by the CF Trustee and the CF's Investment Consultant and form part on the ongoing due-diligence process. Targeted portfolio turnover range is also reviewed by the CF'S Investment Consultant.
- 43 The duration of arrangements with Asset Managers and Pooled Funds will be dependent on the specific strategy of the Fund and how that strategy fits with the Scheme's own strategy. Generally, it is expected that the CF Trustee will look to build and protect long term value and capital growth through medium to long term relationships.

Monitoring and review

- 57 The CF Trustee will regularly monitor the investment performance and process, including the investment managers' compliance with legislative requirements where appropriate. The CF Trustee will review the continuation/termination of the investment managers' contracts at least every three years.
- 58 Key information from this Statement and key results of monitoring of the CF will be sent annually to members. Members can request a copy of this Statement, which will also be made available online.
- 59 The Trustee will annually monitor whether participation in the CF continues to be appropriate for the Scheme (see paragraph 5 above).
- 60 The Trustee can withdraw the Scheme from the CF at any time by giving at least six months' written notice to the CF Trustee.

Agreement

- 61 This statement was agreed by the Scheme Trustee and replaces all previous statements. Any subsequent amendments will be made available to the Santander (CF Trustee) Limited, the fund managers, the Scheme Actuary and the Scheme auditor upon request.

Signed

P Trickett

Date 6 May 2021

On behalf of Santander (UK) Group

Pension Scheme Trustees Limited