Nortel Networks UK Pension Plan

Statement of Investment Principles
June 2022

1. **Introduction**

1.1 The Trustee of the Nortel Networks UK Pension Plan ("the Plan") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act"), as revised from time to time, and subsequent legislation. The Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("the Investment Consultant").

1.2 Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day- to-day management of the assets, which is delegated to professional investment managers.

1.3 This Statement sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Policy Implementation Document ("IPID").

1.4 Nortel Networks UK Ltd (the "Principal Employer") entered into administration on 14 January 2009. The Pension Protection Fund (the "PPF") confirmed on 30 March 2009, with an effective date of 14 January 2009, that the Plan was in assessment for the purposes of determining its eligibility to enter the PPF.

1.5 In October 2018, the Plan completed a bulk annuity transaction to enable the Plan to exit the PPF, as a precursor to the eventual winding-up of the Plan. Following the transaction, Legal and General Assurance Society ("LGAS") took over responsibility for the majority of the Plan's assets and liabilities via the bulk annuity contract. A second, smaller, bulk annuity transaction was completed in March 2021, also with LGAS. The Trustee retains day-to-day responsibility for the residual assets that will be used to enhance the level of members' future benefits.

2. **Investment Objectives**

2.1 The Trustee's primary objective is to follow a low-risk strategy and to maintain the type of assets that would move approximately in line with annuity prices in order to secure members' future benefits.

2.2 Details of the Trustee's investment strategy are set out in Section 4.

3. **Risk Management and Measurement**

3.1 There are various risks to which any pension plan is exposed. The Trustee's policy on risk management is as follows:

- Following the Plan's bulk annuity transaction and exit from the PPF, the primary risk upon which the Trustee focuses is that arising through a mismatch between movements in the value of the Plan's residual assets and annuity prices.

- The Trustee recognises that, whilst increasing risk may increase the potential to enhance the level of members' benefits, it may also result in smaller enhancements than otherwise.

- The Trustee recognises the risks that may arise from lack of liquidity, such as the inability to meet Plan expenses. The Trustee aims to ensure the asset allocation policy in place results in a portfolio with a sufficient level of liquidity to meet the Plan's needs.

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The managers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent.

4. Strategic Asset Allocation

4.1 In October 2018, the Plan completed a bulk annuity transaction and the majority of the Plan's assets and liabilities were transferred to LGAS. In March 2021 a second, smaller, bulk annuity transaction was completed, also with LGAS.

4.2 The investment strategy implemented in April 2022 protects against the best estimate of the remaining interest rate and inflation risk. However, the Trustee recognises that there are a number of factors which remain uncertain and will impact the true interest rate and inflation risk.

Asset Class	**Asset Allocation (%)***
Liability hedging mandate	45
Cash / liquidity funds	55

* Based on approximate asset allocation as at 30 April 2022, subject to change with market movements. Includes balance in the Trustee Bank Account.

4.3 Due to the nature and maturity of the Plan, the actual asset allocation may vary compared to the starting allocation outlined. As of January 2010, the Fund's overall performance is no longer measured against a strategic benchmark and there is also no formal rebalancing between the asset classes set out in the table above.

4.4 Members' benefits will be enhanced using the residual assets, the level of benefit enhancement is dependent on the movements in the value of the residual assets versus the cost of insurance.

4.5 The Trustee seeks to:

- Limit the Plan’s investments in volatile and/or illiquid assets, in recognition of the need to hold assets that will be readily realisable or transferable to LGAS in the event of enhancing insured member benefits;

- Allow a wide tolerance range around the major asset classes, in particular allowing the liability hedging asset value to increase to 100%.

4.6 Specific details of the investments are provided in the Plan’s Investment Policy Implementation Document (IPID).

4.7 The liability hedging mandate is designed to share characteristics with the expected future benefits. The mandate has been designed so that it matches c. 100% of the impact of interest rate and inflation movements on the value of the total assets, allowing for expected cash lump sums.

5. Day–to-Day Management of the Assets

5.1 The Trustee delegates the day to day management of the assets to its investment managers.

5.2 The Trustee regularly reviews the continuing suitability of the Plan’s investments, including the appointed managers. Any changes would be made with the aim of ensuring that the overall level of risk is consistent with that being targeted, as set out in Section 4.

5.3 Details of the appointed managers can be found in the IPID.

6. Additional Assets

6.1 Prior to the insolvency of the Principal Employer, the Trustee made available to Plan members a choice of external Additional Voluntary Contribution ("AVC") investment arrangements. Further information in respect of members’ Additional Voluntary Contributions (“AVCs”) is set out in the IPID.

7. Realisation of Investments

7.1 The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

7.2 Details of the Trustee’s rebalancing policy are set out in the IPID.

8. Socially Responsible Investment and Corporate Governance

8.1 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.

8.2 The Trustee has considered the issues in relation to corporate governance and on the exercise of voting rights. The Trustee recognises that good corporate governance creates the framework within which a company can be managed in the long term interests of shareholders, in particular voting at Annual and Extraordinary General Meetings on the election of directors, the issuance of equity and the appointment of auditors are fundamental in protecting shareholder interests.

8.3 The Trustee has given appointed investment managers full discretion in evaluating 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 UK Stewardship Code.

8.4 The Trustee considers the investment consultant’s assessment of how the investment managers embed ESG into their investment process and how the investment manager’s responsible investment philosophy aligns with the Trustee’s responsible investment beliefs.

8.5 The Trustee engages with the investment manager on these issues through periodic correspondence and will monitor investment manager engagement. This covers a range of matters including the issuers’ performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. The investment managers are not expected to exercise any voting rights on behalf of the Trustee given the investment strategy is comprised solely of gilt-based LDI and liquidity funds.

9. Investment Manager Appointments, engagement and monitoring

9.1 Aligning manager appointments with investment strategy

The investment manager was appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustee looks to its investment consultant for their forward looking assessment of a manager’s ability to perform over a full market cycle. This view will be based on the consultant’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. The consultant’s manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee’s wider investment objectives.

As the Plan invests in pooled investment vehicles, the Trustee accepts that it has no direct ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

There is no set duration for the investment manager appointment. The Trustee will retain the investment manager unless the appointment has been reviewed and the Trustee decides to terminate or there is a strategic change, such as disinvesting the Plan assets to enhance the level of members' future benefits. The Plan is close to finalising the settlement of liabilities and so the wind-up of the Plan is expected to be completed within the next two years.

9.2 Performance Assessment & Fees

The Trustee receives monthly asset valuations which include brief commentary around the absolute performance of Plan assets and performance relative to gilt movements.

The Trustee will also consider the investment consultant's assessment of how each manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's views.

The Trustee's focus is 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 the investment consultant's rating of the manager.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive the associated fee.

If the investment manager is not meeting the investment objectives for the mandate the Trustee may ask managers to review the Annual Management Charge.

9.3 **Portfolio Turnover Costs**

Portfolio turnover costs arise from a) “ongoing” transactions within an investment manager’s portfolio and b) “cashflow” costs incurred when investing in or realising assets from a mandate.

The Trustee has not historically monitored investment managers’ ongoing transaction costs explicitly. Appropriate levels of turnover will vary by mandate and the Trustee does not specify explicit targets but will investigate if turnover levels appear unduly high.

10. Review of this Statement

10.1 The Trustee will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Plan and its liabilities, finances and attitude to risk of the Trustee. Any such review will be based on written expert investment advice.

Signed on behalf of the Nortel Networks UK Pension Trust Limited

by two authorised directors on June 27, 2022