SAS PENSION PLAN

Statement of Investment Principles ("SIP")

Purpose of this Statement

This SIP has been prepared by the Trustees of the SAS Pension Plan (the "Plan"). This statement sets out the principles governing the Trustees' decisions to invest the assets of the Plan.

The Plan's investment strategy is derived from the Trustees' investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Governance

The Trustees of the Plan make all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers. When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, KPMG LLP, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Plan.

Investment Objective

The Trustees' ultimate objective is to invest assets of the Plan to meet members' benefits as and when they fall due. The Plan's funding target is specified in the Statement of Funding Principles, and the Plan's funding position will be reviewed annually to assess the position relative to the funding target and whether the investment policy remains appropriate to the Plan's circumstances.

The Plan's present investment objective is to achieve a return of 2.6% per annum above the return on a liability matching portfolio of UK Government bonds.

Investment Policy

The Plan's present strategy is to invest according to the following broad asset allocation:

Asset Class	Proportion (%)	Expected Return relative to fixed interest gilts* (%)
Diversified Growth	35	3.5
Diversified Credit	15	2.5
Equity Linked Bonds	25	4.0
Liability Driven Investment	25	0.0
TOTAL	100	2.6

The expected returns shown in the above table represent the long-term expectations of the respective asset classes as a whole, based on KPMG's asset class assumptions as at 30 June 2019. Please note that the fixed interest gilt assumption at this date was 0.9% p.a.

The Plan's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Plan's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Plan, and also the strength of the sponsoring company's covenant. The Trustees considered the merits of a range of asset classes.

The Trustees recognise that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Plan consist predominantly of investments which are traded on regulated markets.

The investments are made through a platform provider, who acts as the investment manager. With advice, the Trustees will select underlying funds from the platform to implement the chosen strategy. The platform provider will be responsible for:

- Investing in the chosen underlying funds in the proportions agreed by the Trustees, adjusted as necessary from time to time;
- Providing the Trustees with quarterly asset valuations;
- Providing any asset transition plan for the investment consultant to review;
- Asset rebalancing and meeting cashflow requirements.

The Trustees have appointed Mobius Life as the platform provider.

Investment Mandates

The Trustees will give careful consideration to appoint the most appropriate managers to manage the assets of the Plan. The fund managers are regulated under the Financial Services and Markets Act 2000.

The Trustees have selected underlying funds on the Mobius platform from Invesco, Investec Wealth & Investment (Investec), BMO Global Asset Management (BMO) and Legal & General Investment Management (LGIM) to manage the Plan's assets.

Investec: Diversified Growth

Benchmark	Objective	Fees
UK CPI	CPI + 5% p.a. (gross)	0.67% p.a.

The diversified growth mandate is invested with Investec in the Diversified Growth Fund and makes up 17.5% of the Plan's total strategic allocation.

M&G: Diversified Credit

Benchmark	Objective	Fees
1 month LIBOR	LIBOR + 2.7 – 4.7% p.a. (net)	0.45% p.a

The diversified credit mandate is invested with M&G in the Total Return Credit Investment (TRCI) Fund and makes up 15% of the Plan's total strategic allocation.

BMO: Equity-linked Bonds

Benchmark	Objective	Fees
UK Gilt Benchmark	Track Benchmark	0.30 – 0.36% p.a.

The equity-linked bond fund allocation is invested with BMO in the Overseas Equity-Linked UK Inflation Fund and makes up 25% of the Plan's total strategic allocation. This fund also contributes to the overall hedging in the Plan.

LGIM: Liability Driven Investment Portfolio

Benchmark	Objective	Fees
Plan Liability Benchmark	Track Plan Specific Benchmark	0.24% p.a.

In order to reduce the risk created by differences in sensitivity to interest rate and inflation changes between the Plan's assets and liabilities, the Trustees invest in a Liability Driven Investment mandate. This makes up 25% of the portfolio, with the aim to reduce the volatility in the funding level as measured on a Technical Provisions basis.

All decisions about the day-to-day management of the assets have effectively been delegated to the investment managers. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustees take investment managers' policies into account when selecting and monitoring managers. The Trustees also take into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.
As the Plan's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

Investment Manager Monitoring and Engagement

The Trustees monitor and engage with the Plan's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustees seek to engage on these matters with investment managers.

Areas for engagement	Method for monitoring engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	The Trustees receive a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustees' expectations. • Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	The Trustees receive information from their investment advisers on the investment managers' approaches to engagement.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustees' policies in this area.

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager's appointment and may consider terminating the arrangement.

Employer-related investments

The policy of the Trustees is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Plan's total asset value. The Trustees will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustees consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Signed:………………………………….   Date:………………......

Signed:………………………………….   Date:………………......

For and on behalf of the Trustees of the SAS Pension Plan

Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustees have considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated with in this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	• When developing the Plan's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Plan is exposed to a number of underlying risks relating to the Plan’s investment strategy, these are summarised below:

Risks	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 60% of these risks relative to the Plan’s liabilities on a technical provisions basis.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Losses due to factors that affect the performance of financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan’s investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment (‘RI’) Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the mangers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Plan’s investments.	Hedge all currency risk on the credit mandates.
Non-financial	Any factor that is not expected to have a financial impact on the Plan’s investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix B – Investment Management Arrangements

The Trustees have the following policies in relation to the investment management arrangements for the Plan:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.	• As the Plan is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees policies.	• The Trustees review the performance of all of the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Plan's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Plan invests in. • For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.