

Industry-Wide Coal Staff Superannuation Scheme

Statement of Investment Principles for the Mines Rescue Service Limited Defined Contribution Section

This document, effective from 23 July 2020, describes the investment principles governing decisions about the investment strategy adopted by the Mines Rescue Service Limited Defined Contribution Section (the DC Section) of the Industry-Wide Coal Staff Superannuation Scheme (the Scheme), as required by the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee has a separate Statement of Investment Principles for the Defined Benefit Sections of the Scheme.

In preparing this Statement the Trustee has consulted with the relevant employer and obtained and considered written advice from its professional advisers, Aon Solutions UK Limited.

The Trustee reviews this Statement of Investment Principles at least every three years, and without delay after any significant change in investment policy, or in the circumstances of the Scheme.

Aims & Objectives

The Trustee is responsible for the investment of the DC Section. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee takes into account whether it has the appropriate training and expert advice in order to make an informed decision.

When setting the investment strategy for the DC Section, the Trustee aims to make an appropriate range of funds available that should:

- enable members to tailor their investment strategy to meet their individual needs;
- ensure members have an appropriate choice of assets for investment; and offer funds which provide diversification and long-term capital growth and
- enable members to reduce risk in their investments as they approach retirement.

Default Investment Strategy

The Trustee has designated a default investment strategy for members of the DC Section who do not make their own investment decisions.

The Trustee has designated an investment strategy designed by Legal & General as the default investment strategy. The Trustee has no influence on the investment aims of each underlying fund or how the investment managers choose the underlying investments within the fund, as the assets are pooled with many other investors to obtain economies of scale. The Trustee can designate an alternative Legal & General investment strategy as the default at any time if it sees fit.

When selecting the default investment strategy for the DC Section, the Trustee considered the following:

- The need for appropriate diversification of asset classes.
- The suitability of each asset class for a defined contribution ("DC") scheme, including liquidity.
- The differing investment priorities for members, depending upon their term to retirement.
- The format in which members are deemed likely to access their benefits.

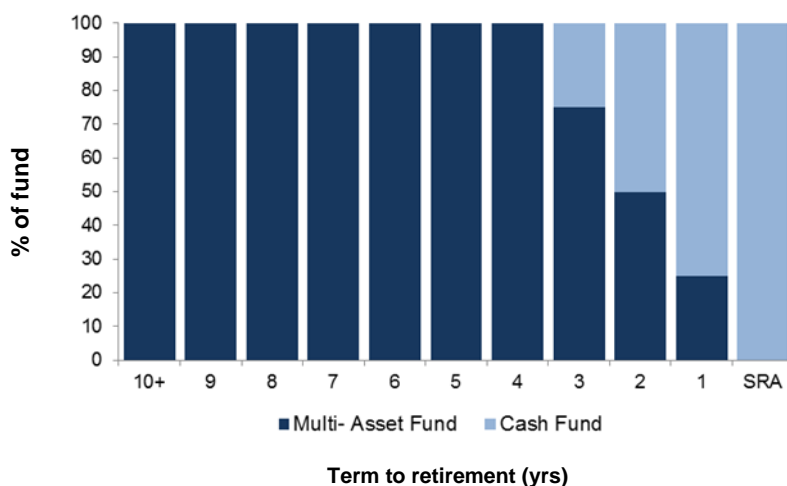
The key aim for the default investment strategy is to provide an investment approach that is suitable for meeting members' long and short-term investment objectives, considering the differing investment priorities for members, depending upon their term to retirement and the format in which they are deemed likely to access their DC benefits.

Members who are a number of years from retirement can withstand the volatility associated with a higher allocation to equities as their fund has sufficient time to recover stock market losses. The default

investment strategy therefore aims to provide members with potential for higher levels of growth during the accumulation of their retirement savings through exposure to growth assets, whilst spreading risk by investing in a range of asset classes.

From three years before selected retirement age (SRA), funds are gradually switched to cash to reduce the risk of volatility on the fund and to target the format in which the Trustee expects members to access their DC benefits i.e. as a cash lump sum.

The structure of the default investment strategy is shown in the chart below:



The investment objectives¹ for each fund used in the default investment strategy are set out below.

Fund	Benchmark	Total Expense Ratio (% p.a.)	Investment objective
Legal & General (PMC) Multi-Asset Fund	ABI Mixed Investments 40-85% shares sector average	0.50	To provide long-term investment growth through exposure to a diversified range of asset classes.
Legal & General Cash Fund	IA Short-Term Money Market	0.47	To provide capital protection with growth at short-term interest rates.

The Balance Between Different Kinds of Investments

The DC Section makes a range of funds available to members, the assets of which are invested in a range of instruments including equities, bonds and cash. The underlying funds may include an allocation to 'alternative' asset classes.

Choosing Investments

The Trustee's policy is to obtain written advice concerning the continued appropriateness of the investment strategy, investment manager and the range of funds available every three years, or sooner in the event of any significant changes to their investment objectives.

Although the Trustee is responsible for the investment strategy of the DC Section, the range of investment funds that can be offered to members is determined by the funds Legal & General makes available.

The DC Section assets are invested in regulated markets.

¹ As at 23 July 2020

The Trustee does not hold any direct investments in derivatives, although the DC Section's investment managers may do, so long as it contributes to the reduction of investment risk, or facilitates efficient portfolio management.

Expected Return on Investments

The investment objectives of each fund are set by the fund manager. The Trustee monitors performance on a quarterly basis, with reference to each funds' benchmark (or expected return, if applicable).

Realisation of Investments and Liquidity

The Trustee recognises the importance of liquidity to ensure members' funds can be realised when required. All funds held by the DC Section are dealt daily and invested in liquid assets and are therefore realisable at short notice through the sale of units in pooled funds.

Risk

Members of the DC Section accrued defined benefit ("DB") benefits in the Scheme before the Mines Rescue Service Section changed to DC accrual. The Trustee recognises the key risk is that DC members will build up a fund value that does not meet their expectations.

The Trustee considers the following sources of risk:

- **Risk of unsuitability of default investment strategy** – the risk that the default investment strategy will be unsuitable for the requirements of some members. The Trustee seeks to mitigate this risk by regularly reviewing the suitability of the default investment strategy, in view of the format in which members can take their DC benefits, and investment options available at the time.
- **Market risk** –the value of members' policies in the DC Section fluctuate with the movement in the underlying asset values. This means that, at a member's retirement, there is a possibility that the fund will have to be realised to provide retirement benefits when the value of underlying assets has fallen. The default investment strategy automatically switches into a lower risk fund as members approach retirement, with the aim of reducing volatility.
- **Manager risk** - the failure of the fund managers to meet their objectives. The Trustee has sought to minimise this risk by using passively managed funds wherever feasible in the default investment strategy.
- **Inflation risk** – the absolute return on investments, and hence the value of the members' policy may be diminished by inflation. To help mitigate this risk, a significant proportion of the fund used during the growth phase invests in equities, with the aim of providing real growth (in excess of inflation) over the long term.
- **Environmental, social and governance risks including climate change** - these risks may negatively impact the value of members' policies if not understood and evaluated properly. The Trustee accepts that the DC Section assets are subject to Legal & General's own policies on environmental, social and governance factors. The Trustee considers this risk by taking advice from its investment adviser when reviewing the investment strategy.
- **Operational risk** - the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.
- **Annuity purchase risk** – the default investment strategy switches to cash as members approach retirement because the Trustee expects most members to take their DC funds as a cash lump sum. If members choose to use their DC funds to purchase an annuity, annuity rates may be more expensive than anticipated and the Cash Fund is unlikely to provide protection against changes in annuity rates. The Trustee seeks to address this risk by making the Pre-Retirement Fund available to members as a self-select fund.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review.

Policy on Assessing Performance and Monitoring Costs

The Trustee receives reports from Legal & General on a quarterly basis showing the performance of the DC Section funds, compared to their benchmarks.

The Trustee is aware of the importance of monitoring the costs and charges borne by members, and the impact these can have on member outcomes. It obtains information about the level of costs and charges, as part of the work to prepare the Chair's Statement each year.

For the DC Section, Legal & General is remunerated by way of an annual management charge and a fund management charge, both of which are a percentage of assets under management. This is in line with market practice. The annual management charge and fund management charge (including other annual charges levied by the investment manager) are met by the members explicitly by deduction from the unit price.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable, as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.

Arrangements with asset managers

The DC Section of the Scheme is invested in an insurance policy issued by Legal & General Assurance Society Limited ('Legal & General'). Legal & General is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Investment in the insurance contract is under the control of the Trustee and it is the Trustee's policy to review the investments and to obtain written advice about them periodically.

When choosing investments, the Trustee, Legal & General and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

In accordance with the Financial Services and Markets Act 2000, the Trustee is able to set general investment policy, but has delegated this and all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to Legal & General and the relevant fund managers through a written contract. Legal & General and the investment managers shall provide the skill and expertise necessary to manage the investments of the DC Section competently.

As the DC Section's assets are invested in pooled funds, the Trustee has limited influence over the underlying fund managers' investment practices. There may be circumstances where managers cannot fully align their strategy and decisions to the policies of all pooled fund investors in relation to strategy, long-term performance of debt/equity issuers and engagement (which may conflict).

The Trustee monitors the DC Section's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium to long term.

The Trustee is supported in this monitoring activity by its investment consultant.

Before appointment of a new asset manager, the Trustee will review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where governing documentation is not aligned, the Trustee will express its expectations to

the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is no set duration for arrangements with asset managers, although the continued appointment for asset managers will be reviewed periodically, and at least every three years.

Environmental, Social, and Governance ("ESG") considerations

In setting the investment strategy for the DC Section, the Trustee's primary concern is to provide an investment approach that is suitable for meeting members' long and short-term investment objectives. The Trustee acknowledges the risk that ESG factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the investment strategy for the DC Section, when selecting managers and when monitoring their performance.

Stewardship Policy (voting and engagement)

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the DC Section invests, as this ultimately creates long-term financial value for members and their beneficiaries. However, the Trustee also recognises that it has limited influence over manager's stewardship practices as the DC Section's assets are held in pooled funds.

The Trustee expects managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

As part of their delegated responsibilities, the Trustee expects Legal & General and the fund managers to:

- engage with investee companies where appropriate with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the DC Section's assets.

The Trustee reviews the continuing suitability of the appointed provider at least every three years and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee reviews the stewardship activities of the fund managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the DC Section's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner.

The transparency for voting should include voting actions and rationale with relevance to the DC Section, in particular, where votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the asset manager.

Where voting is concerned, the Trustee expects their asset managers to recall stock lending as necessary in order to carry out voting actions.

Where significant concern is identified, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the DC Section's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"²).

Signed on behalf of the Trustee of the Industry-Wide Coal Staff Superannuation Scheme

Signed:

Date:

Name:

² The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.