Civil Aviation Authority Pension Scheme

CAA Section

Statement of Investment Principles

November 2022

1. Purpose

The purpose of this Statement of Investment Principles ("SIP") is to document the governance structure, policies and principles by which the Trustee of the Civil Aviation Authority Pension Scheme ("CAAPS") deals with the assets of the CAA Section of CAAPS in order to meet the Primary Objective of the Trustee.

2. CAA Section of CAAPS

On 31 March 2001, CAAPS was divided by statutory instrument into two entirely self-contained and ring-fenced Sections following the separation of National Air Traffic Services ("NATS") from Civil Aviation Authority ("CAA"). All active members who had their employment transferred to NATS were placed into the NATS Section of CAAPS. All other members, including all those in receipt of benefits and all deferred members at the date of separation, were placed into the CAA Section of CAAPS. The Trustee of CAAPS considers and manages the CAA Section ("the Section") entirely separately from its consideration and management of the NATS Section except where a joint approach is in the best interests of the members of both sections.

3. Primary Objective of the Trustee

The Primary Objective of the Trustee is to pay benefits to beneficiaries of the Section as they fall due in accordance with the Rules of the Section. There can be no certainty that the Trustee will succeed in meeting this objective as the Section is exposed to a variety of risks.

4. Strategic Risks

Aside from operational risk (mitigated by systems of management control) common to all forms of business and endeavour, the Section is exposed to five types of strategic risk arising from the nature of a defined benefit pension scheme that pose a threat to achieving the Primary Objective:

- Covenant risk – the risk that employer contributions (in conjunction with investment return) will not be sufficient to pay benefits. This is usually associated with cashflow, profitability or other issues with the employer.

- Investment risk – the risk that the investment return (in conjunction with employer contributions) will not be sufficient to pay benefits. This is not just the risk that asset values fall precipitously but also the risk that over the long term returns do not meet expectations.

- Financial risk – the risk that increasing inflation will increase the cost of benefits and/or that a reduction in nominal interest rates will increase the value of liabilities such that the combination of investment return and employer contributions proves insufficient to pay benefits.

- Demographic risk – the risk that member behaviour or life chances are different to those expected. Except in very particular circumstances, only mortality risk (members living longer than expected) has the potential to increase the cost of benefits such that the combination of investment return and employer contributions proves insufficient to pay benefits

- Climate Change risk – the risk that the current rise in the global temperature poses physical risks of such magnitude that the assumptions on which financial markets operate are materially disrupted.

5. Integrated Risk Management

To maximise the probability of achieving the Primary Objective, the Trustee adopts an Integrated Risk Management ("IRM") approach. This approach seeks not just to minimise each risk individually but to minimise the overall level of risk in the Section with a view to maximising the likelihood of achieving the Primary Objective. This holistic approach is necessary because the risks are not independent of each other and reducing one risk may increase or in some other way change another risk. In depth IRM considerations including sensitivity and scenario testing of the interaction of risks within the Section informs every formal Valuation. Subsequent to each Valuation, the Section is managed in a way that is consistent with the holistic view of overall risk formulated as part of the Valuation. Risks are then continually monitored to ascertain whether that view remains valid or whether remedial action is required. A new formal Valuation may be called if there is a significant change in the level of risk.

6. Long Term Strategy

The Trustee's Long-Term Strategy ("LTS") for the Section is to create conditions whereby there is a reasonable chance of being able to buy-in pensioner liabilities without incurring a significant funding strain (buying-in non-pensioner liabilities would also be considered if this could be done with no significant funding strain). The long-term goal of the LTS is for all buy-ins to be converted to buy-outs, the residual non-insured liabilities of the Section to be bought-out and once all liabilities have been insured to wind-up the Section.

7. Disposition of the assets

The disposition of the Section's assets will be consistent with both the IRM approach and the LTS. Accordingly, the Section's assets will be disposed of in the following real or notional portfolios:

- The Insurance Portfolio: assets to be held in the form of buy-in type insurance contracts matching a portion of the liabilities of the Section

- The LDI Portfolio: assets to be held in a form that reduces financial risk or provides an appropriate source of collateral for any derivative programme that reduces financial risk

- The Growth Portfolio: assets to be held in a form that is expected to deliver a return consistent with the Valuation assumptions at the lowest level of investment risk. Usually, this return will be the return which is sufficient to support the aggregate discount rate on a prudent basis however, the Trustee may decide to vary from this default provided that this can be justified within the IRM approach.

8. The Insurance Portfolio

The Insurance Portfolio is the result of the Trustee's policy of insuring through buy-in type insurance contracts suitable tranches of the Section's liabilities as the opportunity arises. The number of contracts, their relative size, terms and providers is determined on a case by case basis at the point of transaction.

9. The LDI Portfolio

The LDI Portfolio of the Section consists of the assets, derivatives and associated collateral used to implement the hedging programme of the Section. In order to mitigate the Section's exposure to nominal interest rates and inflation and taking into account the view of risk formulated under the Trustee's IRM approach, the Trustee has determined, with the agreement of CAA, that the hedging ratios for both nominal interest rate exposure and inflation exposure in the uninsured liabilities should be set to 100% or limited to the funding ratio of the uninsured assets and liabilities if lower (in order that the funding ratio is preserved rather than the nominal value of any deficit). Thus the benchmark for the hedging programme is a liability proxy set as the interest rate and inflation exposures in the uninsured liabilities based on the LTS. The benchmark will be reassessed by Aon following each Full Actuarial Valuation or Annual Actuarial Update or if there is a material change in the liabilities.

10. The Growth Portfolio

The Trustee has determined that the target return for the Growth Portfolio should be both sufficient to support the aggregate discount rate in the Actuarial Valuation and to generate an additional return to target full funding by 31 December 2030 on the Technical Provisions basis.

As the funding level improves, the target return on the growth portfolio may be reduced or the relative size of the growth portfolio reduced to facilitate further de-risking the portfolio or subsequent buy-ins of members' liabilities. This possibility will be kept under continual review through the Trustee's IRM approach. It is the Trustee's intention that once the deficit has been fully repaired the investment return target for the growth portfolio will be sufficient to support the aggregate discount rate assumption in the Valuation at an appropriate level of prudence.

11. Investment risk

Investment risk is one of the five strategic risks that the Trustee includes within its IRM approach. Investment risk itself can be broken down into specific detailed risks that are measured and mitigated as set out below:

- Manager risk: the risk that a particular manager does not perform as expected
  - is measured by the expected deviation of the prospective risk and return, as set out in each manager's objectives, relative to their investment benchmark
  - is mitigated by adopting a multi-manager approach minimising exposure to any single manager, requiring investment managers to work within specified guidelines and

limits. Ensuring that return deviations are explainable given the individual manager's investment philosophy and process

- Liquidity risk: the risk that the Section does not have sufficient short-term cash to pay benefits or settle other transactions.
    - is measured by comparing the volatility in the Section's short-term cash flows against its current cash balances
    - is mitigated by the CAAPS Finance Department who monitor expected cash flows and ensure that sufficient cash balances are available to meet all payments when due.
- Custodian risk: the risk of error by the custodian of the Section's assets
    - is measured by assessing the custodian bank, in particular, the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
    - is mitigated by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate
- Operational risk: the risk associated with any business or other activity
    - is measured by the Trustee's regular consideration of the risks inherent in the Section's operations through the Risk Register
    - is mitigated by the application of management controls and by audit review
- Counterparty risk: default risk in any contract with a third party
    - is measured by the expected probability of a counterparty to default in meeting their obligations
    - is mitigated through diligently assessing the counterparties the Section transacts with and monitoring collateral.
        - The risk attaching to the insurance contracts is further mitigated by the safeguards surrounding the regulated life insurance market
- Political risk: the risk of unforeseen political events impairing the value of the investments
    - is measured by the level of concentration of investment in any one market leading to the risk of an adverse influence on investment values arising from political events
    - is mitigated by the underlying investment manager through regular reviews of the actual investments and through regular assessment of the levels of diversification within the underlying market
- Currency risk: The risk of holding assets denominated in a foreign currency
    - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on the valuation of investments
    - is mitigated by reducing the translation risk of overseas equity investment by hedging back into sterling. Details of the Section's hedging policy is contained in the Statement of Asset Arrangements
- Asset class risk: The risk that an asset class does not perform as expected
    - is measured by the expected probability of the Section's investments to underperform compared to their return targets
    - is mitigated through diversification
- Environmental, social and governance ("ESG") risk: The risk that ESG factors including climate change impact the value of investments held if not understood and evaluated properly

- is measured through ratings and carbon emission metrics provided by the investment advisers which provide an assessment of the Section's investment managers' ESG capabilities
- is mitigated by taking advice when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance

The Insurance, LDI and Growth Portfolios have different exposures to the risks listed above due to their different purposes and compositions. The principal risk attaching to the Insurance Portfolio is counterparty risk but it is noted at the point of transaction that the assets forming the premium for the contract are transferred irrevocably to the insurer. The LDI Portfolio is exposed to all risks in the list except Political, Currency and Asset Class risk whilst the Growth Portfolio is exposed to all the risks listed. The total quantum of risk in each portfolio is also very different with a relatively small proportion of the total investment risk being attached to the Insurance Portfolio, slightly more risk being attached to the LDI Portfolio but by far the greatest part of total investment risk being associated with the Growth Portfolio.

12. Investment objectives

The investment objectives for the Insurance and LDI Portfolios are fully defined by their purpose; to hold the insurance contracts, to implement the hedging programme and provide an appropriate source of collateral for that programme.

The investment objectives for the Growth Portfolio are more complex. The principal objective for the Growth Portfolio is to deliver the return target set by the Trustee with the minimum amount of investment risk. However, this objective needs to be achieved taking into account various characteristics of the CAA Section that impose additional limitations or requirements on the Growth Portfolio.

- Potential for negative cash flow: the size of benefit payments (not covered by the Insurance Portfolio) is expected to increase over time and consequently the investment strategy needs to be capable of accommodating regular sales of assets. Liquidity is also required in the case that members decide to transfer out of the Section.

- Reserve of collateral: the size of the LDI Portfolio has been set such that it can support as a minimum an increase in real yields of approximately 1%. An increase in real yields beyond this level may therefore require additional collateral to be found to either restock the LDI Portfolio collateral buffer to the desired level of collateral buffer, or in emergencies (as a result of material real yield movements) to ensure the LDI Portfolio has sufficient assets to support the hedging. The Trustee therefore requires the Growth Portfolio to preserve a certain amount of liquidity to act as a reserve of collateral.

The Trustee has therefore set a minimum liquidity constraint on the Growth Portfolio.

13. Investment Strategy

The Trustee reviews the investment strategy regularly, based on the most up to date Section liability information. The allocation between the LDI portfolio and the Growth Portfolio is determined following advice from the Section's advisers.

Asset allocation within the LDI Portfolio is driven by the hedging programme (which in turn is linked to the interest rate and inflation exposures in the liabilities) and the need to provide collateral.

The Growth Portfolio strategy is framed in terms of a target return (on the agreed measure described in 7) which is that required to reach full funding by the target date.

Further detail on the Section's specific investment strategy is contained in the Statement of Asset Arrangements.

In light of the evidence of the risks of climate change the Trustee has considered the potential impact of Global warming on the Section. Its approach to this and the consequences of it for the Investment Strategy are set out in more detail in their Task Force on Climate-related Financial Disclosures (TCFD) Statement and Responsible Investment Policy.

14. Investment Choice

The types of investment held and the balance between them is adjusted as necessary to meet the objectives of the Trustee.

The assets of the Section are invested in the best interests of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interests of members and beneficiaries.

Assets held to cover the Section's liabilities are invested in a manner appropriate to the nature and duration of the expected future liabilities payable by the Section, but recognising also the return requirement in order to meet the funding objective.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from the level of target return needed to achieve the objective and the level of liability hedging that is affordable. To this extent, the Trustee has agreed the target return and liability hedge ratio with its advisers, and as appropriate will agree how this target return and liability hedge ratio should evolve over time as actual experience differs from the expected experience.

The Trustee has delegated responsibility for managing the underlying investments in the Growth Portfolio to the Implementation Manager, BlackRock, within the guidelines and constraints set out in the IMA. This allows the asset allocation and manager allocation to be adjusted quickly where needed, to best meet the investment objectives of the Section and in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings, so as to avoid accumulations of risk in the portfolio as a whole. The diversification is both within and across the major asset classes.

15. Investment Management Structure

The insurance providers within the Insurance Portfolio and the relative weightings to each provider are the result of case-by-case transaction decisions.

The hedging programme and the LDI Portfolio is managed by a single investment manager to ensure that the Trustee's policy on fully hedging the interest rate and inflation exposures in the uninsured liabilities is effectively and efficiently implemented.

The investment management structure within the Growth Portfolio is delegated to the Implementation Manager with the key objective of meeting the pre-agreed target return. The Implementation Manager operates within a prescribed set of investment guidelines details of which are contained within the Statement of Asset Arrangements.

16. Prohibitions

Use of Financial Derivatives

The use of derivatives (including futures, forwards, options, and other over the counter derivatives) is permitted within the portfolio for both hedging and investment purposes subject to risk control parameters designed to ensure that the Section is not exposed to excessive market or counterparty risks (e.g. through the use of leverage at aggregate portfolio level). Use of derivatives is managed to avoid excessive risk exposure to a single counterparty or other derivative operations and will not lead to the creation of an overdraft, other than for short term liquidity reasons.

Self Investment

Self-investment (i.e. investment in the sponsoring companies) is limited by law to no more than 5% of assets. CAAPS has a policy of no self-investment.

Restrictions

The Scheme is not allowed to invest in the following aviation-related stocks in its specialist segregated active equity and bond portfolios:

- Airlines: International Airlines Group, Easyjet, Ryanair, Wizz Air, Flybe, Loganair, Norse Atlantic Airways
- Tour operators, air services companies and others owning an airline: Tui AG, Jet2 plc, Esken plc, Gama Aviation plc, Air Charter Services Group, Air Partner plc, On the Beach Group plc, John Menzies plc.
- Aerospace and defence systems: Rolls Royce, BAE Systems, Boeing, Airbus Industries

17. Review and Evaluation

The Trustee monitors the strategy and its implementation as stated below.

The Trustee will normally delegate the review and control functions to the CAAPS Investment Executive ("CIE").

Performance Measurement

The returns of the Section, each asset class and each manager are measured by the custodian. Reporting is provided quarterly to the CAA Section Investment and Funding Committee ("CAA IFC") and the Trustee.

Within the Insurance Portfolio, monthly accounting reconciliation is performed between the Sections administration records and the cash payments of the insurance providers to ensure that the cash payments are as expected.

The performance of the LDI Portfolio is measured against the liability benchmark.

The performance of the Section's Growth Portfolio is measured against the target return expressed on a cash basis given the hedging programme. The target return is determined so as to support the Valuation at an appropriate level of prudence and support any other objective set by the Trustee consistent with the LTS. The performance of each asset class and manager is measured against the relevant benchmark and agreed outperformance targets. The performance of the Growth Portfolio is also measured against its key risk indicators.

Investment Manager Monitoring

Implementation Manager Monitoring

The CIE receives independent reporting from the custodian in order to validate the reporting of the Implementation Manager.

Service Provider Monitoring

The Trustee reviews from time to time the services provided by the investment advisers and other service providers, as necessary, to ensure that the services provided remain applicable to the Section, and of satisfactory coverage and quality.

The appointment of the Implementation Manager will be reviewed by the Trustee on a regular basis, based in part on the results of its performance and investment process to ensure the Section receives the required service.

18. Stewardship, engagement and voting

The Trustee recognises that good stewardship will enhance shareholder value over the long term.

Decisions relative to the governance of the companies in which the Section invests have been delegated to the Section's asset managers. The Trustee expects the Section's investment managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change. The Trustee requires that voting rights are exercised and any dialogues with management are effected in the best financial interests of the beneficiaries.

Within the growth portfolio, the Trustee delegates the ongoing monitoring of underlying asset managers to the Implementation Manager. The Implementation Manager monitors the underlying asset managers on their Stewardship activity and takes it into account in the selection and retention of underlying asset managers.

All managers are required to report annually to the CIE on their engagement and voting policies and their implementation. This includes indicating the overall level of voting activity, and details of the extent to which they have not voted in line with the stated policy.

Where practicable, the engagement information received will, amongst other information, also provide detail on how company engagements are prioritised, examples of engagement with companies the Section invests in, examples of escalation steps taken where engagement has been unsuccessful, and examples of company engagement with respect to climate change risk mitigation.

Where practicable, the transparency for voting will include voting actions and rationale with relevance to the Section, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; voting differed from the stated voting policy of the manager. Where securities lending is carried out, the Trustee expects the Implementation Manager to assess the benefits of voting against the cost of recalling securities.

Where significant concerns are identified from such engagement information received or otherwise, the Trustee will engage with the Implementation Manager who in turn are able to engage with any underlying asset managers or other stakeholders for more information and seek to encourage steps to improve their stewardship policies and/or implementation level of stewardship policies. Where any significant concerns are not addressed in a satisfactory manner with the underlying asset managers the Implementation Manager and the Trustee may choose to replace the manager so as to bring about the best long-term outcome for the Scheme.

19. Responsible Investment

In setting the Section's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Section and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

Investment managers are expected to take account of any factors, including relevant ESG factors, affecting their valuation of the investments, on the Section's behalf.

The Trustee recognises that integrating ESG factors into the investment process is beneficial to the achievement of its long-term financial objectives. With its investment adviser it carries out regular reviews of its investments which also includes reviewing third-party ESG data. This review supports the Trustee in assessing the ongoing appropriateness of its managers' ESG integration and stewardship processes.

As set out in their TCFD Statement and Responsible Investment Policy, the Trustee recognises that climate change will materially impact on returns within the timeframe of concern to the Section. The Trustee will take action to mitigate this risk where practicable and appropriate for the Section.

In accordance with the Trustee's recognition of climate change risk, the Trustee took the decision in Q3 2020 to transition the Section's passive market capitalisation weighted developed global equity portfolio to a passive portfolio indexed against a low-carbon benchmark, thus reducing the Section's exposure to underlying assets exhibiting high carbon intensity (relative to a market capitalisation weighted benchmark). The Trustee annually reviews its approach to managing climate risk.

Climate change is a Board responsibility although day to day management of the risk is delegated to the Section IFC and the CIE. The Trustee have undertaken scenario analysis over different timeframes to better understand the potential impact of climate change. These scenarios will be reviewed at least annually. Allied to this, the Trustee considers the degree to which climate change is integrated into the investment approach of its managers. As set out in the TCFD Statement and Responsible Investment Policy the Trustee has established four metrics (Carbon footprint, Carbon Intensity, Data quality and a Binary Target/Implied Temperature rise target) so as to monitor its progress towards achieving alignment with the Paris agreement.

In setting and implementing the Section's investment strategy the Trustee does not explicitly take into account the views of the Section's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters.

20. Costs Monitoring

The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Section's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments. The Trustee receives annual cost transparency reports from its managers.

These reports present information in line with prevailing regulatory requirements. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Section;
- The fees paid to the managers, including the manager of the LDI Portfolio;
- The fees paid to the investment managers appointed by the Implementation Manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the Implementation Manager;
  - The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the Implementation Manager;
- Any charges incurred through the use of pooled funds (custody, administration, and audit fees)
- The impact of costs on the investment return achieved by the Section.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The Implementation Manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee.

Evaluation of performance and remuneration:
The Trustee assesses the (net of all costs) performance of their managers on a rolling three-year basis against the Section's specific liability benchmark and investment objective. The remuneration paid to the managers and fees incurred by third parties appointed by the Implementation Manager are provided annually to the Trustee. This cost information is set out alongside the performance of the managers to provide context. The Trustee monitors these costs and performance trends over time.

21. Investment Manager Fees

External investment manager fees are generally determined as a percentage of assets managed. The Trustee believes that this is the most appropriate method of remunerating investment managers.

For some underlying managers, a performance related fee may be in place, which the Trustee believes to be appropriate given the nature of their specific investment objectives as long as these are subject to the relevant performance thresholds and protection mechanisms to ensure that the Trustee remunerates the manager on the basis of true outperformance.

22. Investment Governance

CAAPS is governed by its Trust Deed and Rules which specify the Trustee's investment powers. These investment powers do not conflict with this SIP.

The ultimate power and obligation for deciding on investment policy within the Section rests solely with the Trustee. To ensure effective management of investment issues, the Trustee delegates some responsibilities in relation to the investments to the CAA IFC and others to the CIE. Separate Terms of Reference have been established for both of these committees which set out their membership, powers and reporting obligations.

The role of the CAA IFC is to develop and recommend the investment framework for the Section to the Trustee consistent with Funding Policy, the LTS and the IRM approach. The Trustee will usually accept the recommendation of the CAA IFC, having consulted with the CAA, unless it considers, having consulted with the Section's Scheme Actuary, that the recommendation is liable to prejudice the security of interests of members in the CAA Section.

The main areas of investment responsibility that have been delegated to the CAA IFC are:

- Consideration of further buy-in opportunities for recommendation to the Trustee.
- Consideration of the disposition of the Section's assets between the risk reducing programmes ("the LDI portfolio") and the portfolio designed to deliver the return consistent with the Valuation assumptions ("the Growth Portfolio") for recommendation to the Trustee.
- Consideration of the return target for the Growth Portfolio and associated risk parameters, guidelines and restrictions for recommendation to the Trustee.
- Selection and appointment of external investment managers other than those within the Growth Portfolio.
- Ongoing monitoring and evaluation of the investment arrangements.

The CIE is responsible for all investment aspects of the CAA Section except:

- setting overall objectives, which is the responsibility of the Trustee;
- recommending the strategic framework which is the responsibility of the CAA IFC and;
- appointment of custodian and investment advisers, which is the responsibility of the Trustee.

The CIE's responsibilities therefore include:

- Implementation of the Trustee's strategies in relation to investment and liability and risk management;
- Provision of support to the Trustee in setting and implementing a robust investment governance framework, including policies, risk management and exception reporting;
- Supporting the Trustee in the appointment, management, monitoring and performance appraisal of investment advisers and other third-party suppliers, and arranging for the timely provision of reporting from third parties to the Trustee.

The Trustee is satisfied that the CIE and CAA IFC members have sufficient expertise, information and resources to carry out their roles effectively.

23. Arrangements with Asset Managers

The Trustee recognises that the arrangements with all their managers, including the arrangements with the corresponding underlying managers invested in by the Implementation Manager, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the managers are incentivised to operate in a manner that generates the best long-term results for the Section and its beneficiaries.

The Trustee receives at least quarterly reports and verbal updates from the managers on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Section's objectives, and assess the managers over the long-term. The Trustee has established a set of metrics for monitoring its efforts to align the portfolio with the objectives of the Paris agreement and for managing the physical and transition risks associated with climate change.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by the applicable managers, which supports the Trustee in determining the extent to which the Section's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Section's managers and request that they review and confirm whether their approach is in alignment with the Trustee policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to the Implementation Manager. The Implementation Manager monitors the Section's investments to consider the extent to which the investment strategy and decisions, in particular, long-term related decisions, of the underlying asset managers are aligned with the investment objectives of the Section.

Before appointment of a new manager of the LDI or Growth Portfolio, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where necessary, the Trustee will seek to amend that documentation or express their expectations (such as through side letters, in writing, or verbally at Trustee meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the managers, and regular monitoring of the manager's performance and investment strategy, is sufficient to incentivise the manager to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where a manager is 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 engage with the manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the managers, although the continued appointment will be reviewed periodically.

The suitability of this policy is reviewed annually

24. Additional Voluntary Contributions (AVCs)

For members' AVCs, the Trustee, on advice from its AVC consultants, Aon, has chosen suitable investment vehicles taking into account past performance, charging structure, flexibility and the quality of administration.

25. Legislative requirements

This SIP meets the requirements of the Pensions Acts, 1995 and 2004, and conforms with the principles of the Myners code.

The Trustee has consulted with the CAA on the SIP and has received written advice on the appropriateness of the SIP from CAAPS's principal investment adviser (Aon) who are authorised under the Financial Services and Markets Act 2000. Aon has confirmed to the Trustee that it is conversant with best practice and has the appropriate knowledge and experience to give the advice required by the Pensions Act.

26. Review and distribution

The Trustee will review the SIP in response to any material changes arising from its IRM approach. In the absence of any such material changes the Trustee will review the SIP following each formal Valuation.

Compliance with the SIP will be checked annually by the external auditor of CAAPS.

The SIP is sent to all the Section's investment managers who have a direct relationship with the Trustee and is available to all members of the Section upon request. The SIP is also published on the CAA Section members' website.