Aon Retirement Plan – Defined Benefit Sections
Statement of Investment Principles

Overall Investment Objective

The Trustee of the Aon Retirement Plan aims to invest the assets of the Plan prudently to ensure that the benefits promised to members of each of the Sections are provided.

INTRODUCTION

On 1 October 2012, the Aon Retirement Plan (the "Plan") was formed following the merger of the following pension schemes into a new sectionalised scheme:

- Aon UK Pension Scheme ("Aon UK Section")
- Aon Bain Hogg Pension Scheme ("ABH Section")
- Aon Alexander and Alexander UK Pension Scheme ("A&A Section")
- Hewitt Pension Fund ("HPF Section")
- Hewitt Associates Pension and Life Assurance Plan ("HAPLAP Section")

This Statement sets out the principles governing decisions made about the investment of the assets of the Plan in relation to the Defined Benefit arrangements. The Statement of Investment Principles for the Defined Contribution arrangements is a separate document.

This Statement of Investment Principles (SIP) is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary code of conduct for Institutional Investment in the UK and other required disclosures. The Trustee takes advice from a suitably qualified person in preparing and updating this Statement.

The effective date of this SIP is 30 September 2020. The Trustee will review this SIP no later than three years after the effective date and without undue delay after any significant change in investment strategy or policy.

STRATEGY

The Plan's asset allocation strategy includes an allocation to a range of asset classes including equities, bonds and alternative assets as well as a number of annuity policies.

The Trustee originally had in place a flight plan with de-risking triggers for all Sections of the Plan and the Sections have materially de-risked as the funding level improved. The Sections now all have a low risk investment strategy aiming to deliver returns sufficient to reach full solvency funding within 5 to 10 years. The Trustee continues to review the strategy of each Section and of the Plan as a whole in accordance with its overall investment objective.

RISK

The Trustee recognises that the key risk to the Plan is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause deterioration in the Plan’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Plan's immediate liabilities (“cashflow risk”). The Trustee and its advisers manage the Plan's cashflows and the availability of liquid assets carefully taking into account the timing of future payments in order to minimise the probability of any shortfall or of needing to realise investments in order to meet the benefit outgo at a time when prices are depressed.
- The failure by the asset managers to achieve the rate of investment return assumed by the Trustee (“manager risk”). This risk is considered by the Trustee and its advisers both upon the initial appointment of the asset managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustee and its advisers considered this risk when setting the Plan’s investment strategy.
- The possibility of failure of the Plan Sections' sponsoring employers (“covenant risk”). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employers as to the suitability of the proposed strategy. In addition, the Trustee has requested that the sponsoring employers provide periodic briefings to the Trustee on their current and expected future financial status as well as that of Aon plc.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.
- The risk that the fair value or future cash flows of an asset will fluctuate due to changes in foreign exchange rates ("currency risk"). The Trustee and its advisers considered this risk when setting the investment strategy.
- The risk that one of the Plan's underlying investments will not meet its financial obligations ("credit risk", "default risk"). The Trustee and its advisers have considered this when setting the investment strategy. The Trustee has sought to minimise such risk by ensuring the portfolios are diversified across high quality credit portfolios monitored by the asset managers.
- The risk that environmental, social and governance ("ESG") factors (including climate change) negatively impact the value of investments held if not understood and evaluated properly. The Trustee has considered this risk (“ESG risk”) by taking advice from its advisors when setting the Plan's investment strategy, selecting asset managers and monitoring performance. More detail is included in the next section of this SIP.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustee’s policy is to monitor, where possible, these risks on a regular basis and in addition to periodic reports on the sponsoring employers’ covenant receives reports covering:

- Monthly estimates of funding levels for each Section and the overall Plan on both a technical provisions and solvency basis
- Quarterly analysis of:

1. Investment performance versus the Plan's Section specific investment objectives.
2. Performance of individual asset managers versus their respective objectives.
3. Any significant issues with the asset managers that may impact their ability to meet the performance targets set by the Trustee.
4. Adequacy of collateral held in respect of interest rate and inflation hedging

RESPONSIBLE INVESTMENT AND STEWARDSHIP

In setting the Plan's investment strategy, the Trustee's primary objective is to act in the best financial interests of the Plan and its beneficiaries, seeking to achieve a return and level of risk that is consistent with the overall investment objective.

In addition to the risks considered above, including ESG risk, the Trustee recognises that effective stewardship of the Plan's assets is an important component of its fiduciary duty to the members and beneficiaries of the Plan. The Trustee has agreed that, with the help of its advisors, it will adopt an ESG integration approach within its investment decision making processes whereby financially material environmental, social and governance risks are incorporated into investment decisions.

Stewardship – Voting and Engagement:

The Trustee has ultimate responsibility for the Plan's investment strategy and has delegated day-to-day management of the Plan's investments to its appointed asset managers. The Trustee, with input from its advisors, monitors its asset managers to ensure that their activities – including on stewardship and responsible investment – are aligned with the Trustee's requirements and policies as set out in this SIP.

The Trustee and its advisors review the asset managers' approaches to stewardship and other ESG-related matters and communicate their expectations and standards as set out in this SIP. Copies of this SIP are shared with the asset managers following relevant updates. These standards include an expectation that the Plan's asset managers and, where relevant, underlying asset managers:

- Use their influence as major institutional investors to exercise the Plan's rights and duties as a shareholder.
- Engage with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.
- Consider collaboration with other investors, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed.
- Provide adequate transparency to the Trustee around their stewardship activities.

The Trustee and its advisors will review the asset managers' stewardship activities on an annual basis. As part of this review, the Trustee expects its asset managers (and underlying asset manager where relevant) to provide:

- A summary of voting activities over the year, setting out in particular where votes were cast against management, votes against management were significant, votes were abstained or where voting differed from the voting policy of the asset manager.
- A summary of engagement activities over the year, including the objectives of the engagement and relevance to the fund, the methods of engagement, progress and perspectives around shortcomings and outcomes and procedures for managing unsuccessful engagements.

While the Trustee may purchase annuity policies for risk protection with no expectation of a surrender, the Trustee believes that evidence of ESG credentials is a positive factor to consider in selecting an insurer. As such, the Trustee will incorporate annuity providers' ESG credentials in its review of new annuity products. As part of its review, the Trustee will consider factors such as:

- Whether the insurer is signed up to the UN Environmental Programme for Sustainable Insurance.
- Whether the insurer is a signatory to the Principles for Responsible Investments (PRI).
- Whether the insurer's primary asset manager for annuities is signed up to the PRI.
- Its investment advisor's overall assessment of the insurer's asset manager's ESG integration into the insurer's asset strategy.

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 Plan's investment strategy the Trustee does not explicitly take into account the views of Plan 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"[1]).

COSTS AND TRANSPARENCY

The Trustee expects its asset managers (and underlying managers where applicable) to offer full cost transparency via industry standard templates. This will be reviewed before the appointment by the Trustee of any new managers and includes the existing asset managers employed by the Plan.

The Trustee assesses the performance of the asset managers on a net of all costs basis and recognises that this provides an incentive to the manager to control costs. However, the Trustee also believes that explicit, regular monitoring of the level and the trends of costs incurred will enhance those incentives.

Portfolio turnover is defined as the expected frequency with which each underlying asset managers' fund holdings change over a year and the Plan's investment advisors monitor this on behalf of the Trustee as part of the manager monitoring they provide and flag where there are concerns. 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.

The Trustee and its advisors will review the remuneration of the Plan's asset managers on at least a triennial basis to ensure that these costs are and remain reasonable in the context of the nature and balance of investments held.

IMPLEMENTATION AND ADVICE

Aon Solutions UK Limited has been selected as investment advisor to the Trustee and to the Funding and Investment Sub-Committee ("the FISC"). They operate under an agreement to provide a service which ensures the Trustee and the FISC are fully briefed to take decisions and to monitor those activities that are delegated.

Aon Solutions UK Limited has the knowledge and experience required under the Pensions Act 1995. Aon Solutions UK Limited are paid on a time cost basis for all the work they

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

undertake for the Plan, although fixed fees may be negotiated by the Trustee for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant asset manager through a written contract.

When choosing investments, the Trustee and the asset 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). The asset managers' duties also include:

- Voting and corporate governance in relation to the Plan's assets, including taking into account the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Shareholders and Agents.

Details of the asset managers that have been appointed to manage assets for each Plan Section are contained in the Schedule of Investment Arrangements.

ARRANGEMENTS WITH ASSET MANAGERS

The Trustee regularly (typically quarterly) monitors the Plan's investments to consider the extent to which the investment strategy and decisions of its asset managers are aligned with the Trustee's policies as set out in this SIP, including those on non-financial matters. This includes monitoring the extent to which asset managers (or underlying asset managers where appropriate):

- 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 advisor and receives regular reports and verbal updates on various items, including on the investment strategy, performance, and longer-term positioning of the portfolio for each Section of the Plan. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's Overall Investment Objective and assesses its asset managers over 3- to 5-year periods depending on the nature of the mandate in question.

Where relevant, the Trustee receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers which supports the Trustee in determining the extent to which the Plan's engagement policy, as set out in this SIP, has been followed throughout the year.

The Trustee believes that it has a duty as an institutional investor to invest in a responsible manner. Where appropriate, and in cases judged by the Trustee to be significant and of potential material financial impact, the Trustee and its advisors will query the asset managers on the rationale for holding positions in companies which may be perceived to contribute negatively to society.

Before appointing a new asset manager, the Trustee reviews the governing documentation associated with the investment and considers the extent to which it aligns with the Trustee's policies. Where appropriate and possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, the Trustee will express its expectations to the asset manager by other means (such as through a side letter, in writing, or verbally at Trustee meetings). Furthermore, the Trustee shares its policies with the Plan's asset managers, and requests that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary) and regular monitoring of its 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 assessments of medium- and long-term financial and non-financial performance.

Where an asset 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 asset manager to understand the circumstances and materiality of the decisions made.

There is no set duration for the existing arrangements with the Trustee's appointed asset managers and the fiduciary manager, although the continued appointments are reviewed periodically. Similarly, there are no set durations for arrangements with the underlying asset managers that the fiduciary manager invests in, although this is regularly reviewed as part of the manager research and portfolio management processes in place. For certain closed-ended vehicles, the duration may be defined by the nature of the underlying investments.

GOVERNANCE

The Trustee takes some decisions and delegates others. When deciding which decisions to take and which to delegate, the Trustee has taken into account whether it has appropriate training and expert advice in order to take an informed decision. The following decision-making structure has been established:

Trustee	▪ Prepare and maintain this Statement including the setting of the overall investment objective and strategy. ▪ Set structures and processes for carrying out its role. ▪ Appoint the Funding and Investment Sub-Committee and monitor its actions
Funding and Investment Sub-Committee	Make recommendations to the Trustee on: ▪ The preparation and content of this Statement including the setting of the overall investment objective and strategy. Make decisions on: ▪ The selection and monitoring of the planned asset allocation strategy. ▪ Selection and monitoring of investment advisors and asset managers. ▪ Determination of the structure for implementing the investment strategy. ▪ Selection and monitoring of direct investments (see below). ▪ Ongoing issues relevant to the operational principles of the Plan's investment strategy.
Investment Adviser	▪ Advise on all aspects of the investment of the Plan's assets, including implementation. ▪ Advise on this Statement. ▪ Provide required training.
Asset Managers	▪ Operate within the terms of this Statement and their written contracts. ▪ Select individual investments with regard to their suitability and diversification. ▪ Advise the Funding and Investment Committee on the suitability of the indices in their benchmark.

Direct Investments:

The Pensions Act 1995 distinguishes between investments where the management is delegated to an asset manager with a written contract and those where responsibility for the investment is retained by the Trustee e.g. the purchase of an insurance policy. The latter are known as **direct investments**.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this Statement and the criteria by which such investments should be assessed as set out in the Occupational Pensions Schemes (Investment) Regulations 2005 (regulation 4).

Effective date of Statement: 30 September 2020

Agreed and approved by the Trustee of the Aon Retirement Plan