BW Plan

Statement of Investment Principles

July 2023

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Section 1: Introduction

Pensions Acts

1.1 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This Statement describes the investment principles pursued by the Trustee of the BW Plan (“the Plan”) and fulfils that requirement.

1.2 The Trustee has consulted BorgWarner Limited (“the Employer”) on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 Before drawing up this statement, the Trustee has obtained and considered written advice from the Plan's investment consultants (currently Towers Watson Limited). The Trustee will review this document regularly, at least once every three years, and without delay following a significant change in investment policy.

Financial Services and Markets Act 2000

1.4 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

Plan details

1.5 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries (“Members”).

Section 2: Division of responsibilities

2.1 The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee may delegate some of these responsibilities.

Trustees

2.2 The Trustee's responsibilities include:

- Reviewing the content of this Statement regularly, in conjunction with the investment consultants and the Scheme Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or investment strategy review.
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of the investment results and other information, such as meetings with the Investment Manager(s) and written reports.
- Appointing (and dismissing) investment manager(s).
- Consulting with the Employer when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

2.3 The Trustee no longer has a Finance & Investment Sub-Committee (FISC). In the Trustee's meeting on 5 June 2018, it was agreed that the FISC would be dissolved and instead all investment and funding decisions will be made by the Trustee board as a whole.

Investment Managers

2.4 Each investment manager's responsibilities include:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustee) of changes in the asset mix and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.
- Informing the Trustee of any changes in the internal objectives and guidelines of any pooled funds used by the Plan as soon as practicable.
- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Plan.

2.5 In addition to valuation and performance statements received by the investment managers, the Trustee has also appointed an independent third party Performance Measurer. The Performance Measurer independently verifies the performance reported by each of the Plan's investment managers, as well as provides composite reporting on total Plan and benchmark level returns to assist with the monitoring of performance against the Plan's objectives.

2.6 The investment managers also appoint a custodian, whose responsibilities include:

- the safekeeping of all the assets of the Plan;
- undertaking all appropriate administration relating to the Plan's assets;
- processing tax reclaims in a timely manner.

Professional Advisors

2.7 The Trustee agrees with the Myners best practice of paying particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). The Trustee believes that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Plan. The Trustee will continue with the current arrangement until this ceases to be appropriate.

2.8 The Trustee has a dedicated Investment Consultant for the Plan, who works closely with the Scheme Actuary to align the funding and investment advice.

Investment Consultant

2.9 The investment consultant's responsibilities include:

- Participating with the Trustee in reviews of this statement.
- Advising the Trustee, as requested:
  - considering (working closely with the Scheme Actuary) how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested;
  - on how any changes at the investment manager(s) could affect the interests of the Plan;
  - on how any changes in the investment environment could either present opportunities or problems for the Plan.
- Undertaking project work as requested, including:
  - reviews of asset allocation policy;
  - reviews of the investment managers.
- Advising on the selection of new managers and/or custodians.

Scheme Actuary

2.10 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future.
- Assessing the funding position of the Plan against all statutory funding requirements and advising on the appropriate response to any shortfall.

Section 3: Objectives and long term policy for the Defined Benefit section

Objectives

3.1 The Trustee has the following investment objectives:

a The acquisition of suitable assets of appropriate liquidity which will generate income and an element of capital growth to meet, together with funding contributions from the Employer, the cost of accrued benefits which the Plan provides.

b To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter-term basis.

c To minimise the long term costs of the Plan by generating return on the assets albeit the primary objective is to minimise the risks referred to in b.

d The Trustee aims to buy-out the Plan at some point in the next 5-10 years with full funding on a buy-out equivalent measure being targeted by June 2028 (based on the Investment Strategy and Journey Planning Review undertaken in Q1 2023).

Policy

3.2 In February 2023, the Investment Consultant carried out an investment strategy review to examine and quantify the implications of different investment policies and to identify an appropriate asset allocation given the Plan's particular liabilities and the favourable funding position and long term target. In undertaking Journey Planning analysis to assess the long term funding objective of the Plan, the Trustee has formally adopted a target for achieving full funding on a buy-out equivalent measure by June 2028. As part of this analysis, a dynamic de-riksing framework was agreed, whereby trigger points were set above the existing Journey Plan such that, if the Plan's funding level got materially ahead of expectation, then a framework is in place to allow the Plan to de-risk from return-seeking assets into matching-assets to a degree that maintains an expected return that is sufficient to achieve the same long-term funding date of 2028. This allows the Plan to retain the same long-term objective, but allows the Plan to capture market opportunities if they arise so this can be achieved at lower risk.

3.3 In 2019, the Trustee purchased a pensioner bulk annuity policy (buy-in) with Just Retirement Limited. This policy covered all pensions in payment as at 10 October 2018. The key target for the Trustee was to secure liabilities in respect of pensioner and dependant members at a cost lower than the cost of paying those liabilities through an equivalent investment in a portfolio of gilts. In doing so it provided a more exact match for inflation and interest rate risks compared to the Plan's previous bond holdings and additionally removes longevity risk in respect of these members.

3.4 The Trustee has implemented an asset arrangement (ex buy-in policy) whereby the majority of the return seeking assets are invested in a multi-asset fund, increasing the level of overall diversification, and the matching assets are invested via a Liability Driven Investment (LDI) mandate to better hedge the remaining interest rate and inflation risk of the Plan.

3.5 The Trustee considers that an asset allocation policy for the Plan which corresponds to the benchmark outlined in paragraph 3.6 will ensure that the assets of the Plan include suitable investments, that those assets are appropriately diversified and that there is a reasonable expectation of meeting the objectives in 3.1.

Strategy

3.6 A summary of the Plan's overall target asset allocation (excluding the buy-in policy) as at July 2023 is as follows:

Overall portfolio	Strategic asset allocation (%)
Return-seeking assets	**45**
Equities	10
Multi-Asset	35
Matching assets	**55**
Liability Driven Investment (LDI)	53.0
Cash	2.0
Total	**100**

* Note that the Plan has a Buy-In policy of c£56m as at 30 June 2023. The annuity policy may be transferred to the insurer in due course (i.e. converted into a 'buy-out'). Until then, the policies remain an asset of the Plan, and the Plan remains exposed to the risk of default by the insurer. However, when selecting the insurance provider, the Trustee undertook due diligence to minimise this risk and will continue to monitor publicly available information on the financial strength of the insurer.

3.7 The Trustee, with advice from its investment consultant, will manage the Plan's assets towards the target allocations outlined above, within a reasonable tolerance, and where appropriate will rebalance the portfolio if allocations deviate away from the target significantly.

Additional Voluntary Contributions ("AVCs")

3.8 In September 2020, the Trustee undertook a bulk transfer of all remaining assets in the Plan's AVC arrangements with Aviva and Utmost to the Aegon Master Trust. There are no DC assets remaining in the Plan.

Section 4: Investment Manager Arrangements for the Defined Benefit section

Just Retirement Limited

4.1 Around half of the Plan's Defined Benefit assets are invested with Just Retirement Limited (Just) in the form of a pensioner buy-in policy. This policy covers all pensions in payment as at 10 October 2018.

Performance objectives

4.2 The aim of the buy-in policy is to wholly cover the benefits due to pensioner and dependant members of the Plan as at 10 October 2018.

Fee structures

4.3 The Trustee paid a premium to Just of £81.4m in late April 2019, based on market conditions as at 26 April 2019 . There are no ongoing fees in respect of the policy.

Soft Commission

4.4 Soft commission is not relevant for a buy-in policy.

BlackRock Advisors (UK) Limited

4.5 63% of the Plan's non-Buy-In Defined Benefit target asset allocation are invested with BlackRock Advisors (UK) Limited (BlackRock) in the pooled funds listed below.

Asset Class	BlackRock Fund	Benchmark allocation %
Global Equities	Aquila Life World Equity Index Fund	**10.0**
Liability Driven Investment	LDI Portfolio	**53.0**

Performance objectives

4.6 The BlackRock Aquila Life World Equity Index fund tracks the MSCI All World index within a reasonable tolerance.

4.7 BlackRock manage the LDI mandate with discretion around the underlying instruments used whilst maintaining a target hedge ratio of 88% (as a % of the Plan's uninsured liabilities) within a reasonable tolerance range. This target hedge ratio will be revisited by the Trustee from time-to-time with advice from its investment consultant on its appropriateness.

4.8 Following the UK Gilts Crisis in September / October 2022, the Trustee has increased its allocation to LDI assets to ensure appropriate levels of collateral are available to avoid any increased risks being borne by the Plan. In addition, the Plan has a collateral waterfall structure in place with the LDI manager, whereby unlevered Gilts, Index-Linked Gilts and the Plan's allocation to Global Equities, are readily realisable and available to be used for collateral management purposes in the event of a market shock. The Trustee, in conjunction with its investment consultant and LDI manager, also montiors and reports the LDI collateral and leverage position at least monthly and decides if any action is required as appropriate based on the monitoring reports and advice provide from the investment consultant.

Fee structures

4.9 BlackRock is paid a fee based on the value of assets that it manages. These fees, exclusive of VAT, are as follows:

Plan assets invested in index-tracking pooled funds	0.18% pa
Plan assets invested in the BlackRock LDI Portfolio	0.12% pa

Soft Commission

4.10 BlackRock does not use soft commission arrangements within its broking transactions.

Henderson Global Investors

4.11 A small amount of the Plan's Defined Benefit assets remain invested with Henderson Global Investors (Henderson) in the Henderson Indirect Property Fund (Europe), a European fund of property funds. The Henderson fund is in the process of being liquidated and the proceeds paid out to all investors. The Trustee has already received the majority of the Plan's original investment, with the remaining proceeds due to be paid out soon. At the time of reporting, the Fund's administrators, PwC, were looking to finalise a tax rebate ahead of fully liquidating the Fund. No definitive timeline has been provided for this activity.

Towers Watson Investment Management (TWIM)

4.12 35% of the Plan's Defined Benefit target asset allocation (excluding the buy-in policy) are invested with Towers Watson Investment Management (TWIM) in the pooled fund listed below.

Asset Class	TWIM Fund	Benchmark allocation %
Multi-Asset	Core Diversified Fund	35.0

Performance objectives

4.13 The TWIM Core Diversified Fund has the objective to seek an attractive risk-adjusted total return on a medium-long term basis through investing in mainstream and alternative investment asset classes. The fund has the objective to seek a return of 3-Month GBP LIBOR + 3%.

4.14 The Investment Manager is responsible for ensuring appropriate diversification of investments and the suitability of Plan investments managed by them.

Fee structures

4.15 TWIM is paid a fee based on the value of assets that it manages. These fees, exclusive of VAT, are as follows (and may vary slightly over time owing to the composition of the underlying asset classes within the fund):

Plan assets invested in Core Diversified Fund	0.60% pa

Soft Commission

4.16 TWIM does not use soft commission arrangements within its broking transactions.

Section 5: Defined Contribution section

Background

5.1 The DC section was closed to future contributions with effect from 1 February 2018.

5.2 In March 2018, the Trustee undertook a bulk transfer of all DC section assets to the Aegon (BlackRock) Master Trust, excluding assets in the Plan's AVC arrangement with Aviva (Friends Life) (policy number F49099).

5.3 In September 2020, the Trustee undertook a bulk transfer of all remaining assets in the Plan's AVC arrangements with Aviva and Utmost to the Aegon Master Trust. Members do currently have the option to transfer their DC benefits back into the Plan on retirement, which has been noted via member communications. There are no DC assets remaining in the Plan.

Section 6: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

6.1 The Trustee has appointed investment managers who are authorised under Financial Services and Markets Act 2000 to undertake investment business. After gaining (and, at most, annually reconfirming) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.

6.2 In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

Investment restrictions

Universal

6.3 No direct investment is permitted in securities issued by the Company or any associated companies.

6.4 No direct investment is permitted in property leased to the Company.

Manager Restrictions

6.5 The Trustee recognises that the Myners Code recommends that Investment Managers should not be restricted in their use of financial instruments, without clear justification in the light of the specific circumstances of the Plan. The Trustee has decided to retain the existing restrictions, but will review on an annual basis.

6.6 The following restrictions have been agreed with the Investment Managers of the Defined Benefit section of the Plan and can only be changed with the consent of the Trustee:

a No use of futures and options not traded on and under the rules of a recognised or designated Stock Exchange.

b Derivatives shall not be used for speculative transactions and only used for risk management and hedging purposes.

c Not more than 15% of the Plan to be exposed to financial futures on a full exposure basis.

d Plan to be invested only in the units of regulated collective investment schemes, cash and derivatives.

Rights attaching to investments

6.7 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

6.8 The Trustee periodically review reports from investment managers to ensure that the policies outlined in sections 6.3 to 6.6 are being met.

Liquidity and realisation of investments

6.9 The Plan’s administrator (currently XPS Administration) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.

6.10 The Trustee's policy is that there should be sufficient secure investments in liquid or readily-realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy. A 2% strategic allocation to cash has been agreed by the Trustee to ensure sufficient short term cash is held to meet benefit outflows, and the overall liquidity of the Plan;s assets are assessed from time-to-tim, as deemed appropriate, with advice from the Plan’s investment consultant.

The Myners Principles

6.11 The Trustee has reviewed their compliance with the Myners Principles (as stated in Appendix A).

6.12 In light of the Myners Code, the Trustee has considered the issue of remuneration for serving Trustee members. The Trustee has decided that it is inappropriate to be remunerated for the additional responsibilities as Trustee of the Plan. Given that the time spent dealing with investment issues for the Plan is generally within the hours of normal employment, the Trustee feels that it is inappropriate to be further compensated for this time.

6.13 The Myners Code suggests that trustees should formulate and publish an annual business plan. The Trustee does not consider it appropriate to publish a formal business plan, although the Trustee does manage an informal business plan that includes investment items which it reviews on a regular basis.

Engagement with investment managers, including policies on alignment, incentivisation and monitoring

6.14 To maintain alignment with the Trustee’s overall investment objectives and policies (including the Trustee’s views on sustainable investments set out in this Statement), the investment managers are provided with the most recent version of the Plan’s Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

6.15 The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The appropriateness of the Plan’s allocation to such mandates is determined in the context of the Plan’s overall objectives.

6.16 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan’s assets. When assessing a manager’s performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager’s appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

6.17 The Plan uses different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.

6.18 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

6.19 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

6.20 The Trustee reviews the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Environmental Social and Governance Considerations

6.21 The Trustee will generally take account of financially material considerations including (but not necessarily limited to) Environmental, Social and Governance (ESG) considerations, such as climate change, in the selection, retention and realisation of the Plan's investments.

6.22 The Trustee considers these issues having regard to the length of time that is needed for the funding of benefits by the investments of the Plan.

6.23 In practice, as the Plan only requires a very modest return in excess of gilts to meet its long term self-sufficiency goal, the majority of the Plan's assets are already invested in government securities (via its LDI mandate) and bulk annuities. Therefore ESG considerations are only expected to impact a minority of the portfolio.

6.24 Once the Plan hits its long-term funding target, the majority of the Plan's assets are expected to be sold in favour of further investment in bulk annuities. ESG factors are typically expected to play out over the longer term and so are only expected to have a modest impact over the Plan's relatively short timescales.

6.25 The Trustee has therefore taken a proportionate approach to ESG considerations, as follows:

- The Plan's return-seeking portfolio is managed via the WTW Core Diversified Fund and BlackRock passive global equities. The Trustee expects that the managers, as part of their wider governance of the pooled funds, to continue their long standing approach to stewardship - including engagement with firms and exercise of voting rights. The Trustee will monitor the managers in this regard from time to time by carrying out a high level review of investment performance as well as seeking an annual update on their ESG policies.

- All of the Plan's investment managers are signatories to the UN PRI (Principles for Responsible Investing).

6.19 Members' Views and Non-Financial Factors

- The Trustee does not take into account the views of 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") in setting and implementing the Plan’s investment strategy.

Section 7: Risk management

7.1 The Trustee recognises a number of risks involved in the investment of the assets of the Plan:

- Solvency risk and mismatching risk
  - are measured through regular assessments of the expected development of the assets relative to the liabilities under current and alternative investment policies;
  - are managed through the choice of the benchmark asset allocation and regular reviews of investment strategy.
- Manager risk
  - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy;
  - is managed through the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
- Liquidity risk
  - is measured by the level of cashflow required by the Plan over a specified period;
  - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Currency risk
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values;
  - is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas investments' currency translation risk for those overseas currencies that can be hedged efficiently.
- Custodial risk
  - is measured by assessing the credit-worthiness of the custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody;
  - is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- Political risk
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention;
  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit;
- is managed by assessing the interaction between the Plan and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.
- the Trustee has also assessed the covenant strength of Just Retirement Limited and will continue to do so at regular intervals in future.

7.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

7.3 The Trustee continues to monitor these risks and maintain a register of risks that the Plan faces, which is reviewed regularly.

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Plan

Appendix A: IGG (or Myners) principles

In 2000, the Government commissioned Paul Myners to investigate the factors which were distorting the investment decision-making of UK institutions. As a result of this review, it was recommended that UK defined-benefit pension funds adopt investment principles (now called the IGG Principles) as best practice. These investment principles have since been amended and are detailed as follows:

Principle	Best practice guidance
The high level principles represent best practice throughout the industry in investment decision-making and governance. It is expected that trust boards will report against these on a voluntary 'comply or explain' basis.	Best practice guidance is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.
Principle 1: Effective decision-making ■ Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. ■ Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	■ The board has appropriate skills for, and is run in a way that facilitates, effective decision-making. ■ There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions. ■ It is good practice to have an investment subcommittee, to provide the appropriate focus and skills on investment decision-making. ■ There is an investment business plan and progress is regularly evaluated. ■ Consider remuneration of trustees. ■ Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).
Principle 2: Clear objectives ■ Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.	■ Benchmarks and objectives are in place for the funding and investment of the scheme. ■ Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation. ■ Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates. ■ Consider the strength of the sponsor covenant.

Principle 3: Risk and liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Principle 4: Performance assessment

- Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairperson addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

Principle 5: Responsible ownership

- Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

Principle 6: Transparency and reporting	Reporting ensures that:
■ Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. ■ Trustees should provide regular communication to members in the form they consider most appropriate.	■ the scheme operates transparently and enhances accountability to scheme members; and ■ best practice provides a basis for the continuing improvement of governance standards.