

# *Statement of Investment Principles*

**For the Pilots' National Pension Fund**

**Effective from: 7 April 2026**



## 1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustee of the Pilots' National Pension Fund.

It sets out our policies on various matters governing investment decisions for the Pilots' National Pension Fund ("the Fund"), which is a Defined Benefit ("DB") Fund. This SIP also covers the Additional Voluntary Contribution arrangements ("AVCs").

The Fund separately includes a Cash Balance section. No distinction is currently made within the asset strategy for the liabilities associated with the Cash Balance section of the Fund, given their relatively small size as a proportion of total liabilities. The Trustee will review this position at each triennial actuarial valuation, or more frequently if required.

This SIP replaces the previous SIP which had an effective date of December 2024.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Fund and the principles contained in this SIP.

We have consulted with the Participating Bodies and the Association of Participating Bodies ("the Association") in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

## 2. Investment objectives

The primary objective for the Fund is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, we also have an objective that the Fund should be fully funded on a Technical Provisions basis.

We have also had regard to an appropriate long-term objective under which the Fund would have enough assets to be "self-sufficient" from the Participating Bodies. Therefore, we assess and monitor funding progress for investment purposes against a secondary target of achieving full funding on a Gilts +0.5% pa basis.

Our investment objective for the AVCs is to make available a suitable range of investment options to meet members' risk / return objectives.

### 3. Investment strategy

With input from our advisers and in consultation with the Participating Bodies, we reviewed the investment strategy for the Fund in 2025, considering the objectives described in Section 2.

As part of the above, a provisional investment strategy for the Fund was agreed, which is shown in the following table.

Asset class	Provisional Strategic allocation
Working Capital Finance	15%
Equities	15%
Asset Backed Securities	15%
Short-Dated Credit	15%
Long-Dated Credit	10%
Liability Driven Investment	30%
<b>Total</b>	<b>100%</b>

The allocation outlined above is provisional in nature for two reasons:

- The Fund has a legacy holding in a semi-illiquid multi-asset fund. This holding is being exited in a phased approach. As and when proceeds are received, they will be redeployed to bring the Fund's investment portfolio closer to that set out in the table above. As such, aligning the Fund's investment portfolio with the allocation set out in the table will occur over an extended period of time.
- The Fund's triennial Actuarial Valuation is ongoing at the time of writing. Following sight of the initial results, we will revisit whether the provisional strategic allocation remains appropriate with the support of our investment adviser, and in consultation with the Participating Bodies.

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Fund's circumstances. We believe that the strategy above meets this objective.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets. This monitoring is

cognisant of the legacy holding in a semi-illiquid multi-asset fund, which cannot be immediately rebalanced.

### 4. Considerations in setting the investment arrangements

When deciding how to invest the Fund's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of: the covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments.

In setting the strategy for the Fund it is our policy to consider various factors including:

- our investment objectives, including the target return required to meet these.
- the circumstances of the Fund, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the sponsor covenant.
- the need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

In determining the investment arrangements for the AVCs it is our policy to consider various factors including:

- the overall best interests of members and beneficiaries.
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement.
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the DB and AVC benefits, including environmental, social and governance (“ESG”) factors and the risks and opportunities relating to climate change.

Our **key investment beliefs**, which influence the setting of the investment arrangements, are as follows:

- Asset allocation is the primary driver of long-term returns.
- Costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.
- Investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and can absorb significant governance time and money, and therefore, in certain assets classes, passive management can offer better value.
- Risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified.
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this.
- Climate change is a financially material systemic issue that presents risks and opportunities for the Fund over the short, medium and long term.
- Voting and engagement are important and can create long term value which is in the best interest of Fund members and therefore we encourage managers to improve their voting and engagement practices.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have entered agreements with the Fund’s investment managers setting out the terms on which the portfolios are to be managed.

We have limited influence over managers’ investment practices because all the Fund’s assets are held in pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers’ investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer term periods as available. The duration of a manager’s appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager’s remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund’s investment mandates.

## 6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cash flows to rebalance the assets towards the strategic asset allocation.

## 7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Fund and its members.

We influence the Fund's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including systemic risks such as climate change) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice.

We encourage our managers to improve their ESG practices, although acknowledge that we have limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

We do not consider matters that are purely non-financial in nature (eg matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments. However, the line between financial and non-financial factors is not always clearcut and some non-financial factors that may not immediately present as financially material may have the potential to become so in the future. We keep this under review as part of our overall consideration of ESG considerations.

## 8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and

enhance the long-term value of investments and is in the best interests of our members.

We seek to appoint investment managers that have strong stewardship policies and processes, reflecting the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

As all of our investments are held through managers or pooled funds we do not monitor or engage directly with issuers or other holders of debt or equity.

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected some priority ESG themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We review the themes regularly and update them if appropriate. We communicate these stewardship priorities to our managers from time to time.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.