Sprint International (UK) Limited Retirement Benefits Plan

Statement of Investment Principles – September 2023

1. Introduction

This Statement sets down the principles governing decisions about investments for the Sprint International (UK) Limited Retirement Benefits Plan (hereinafter referred to as "the Plan") to meet the requirements of the Pensions Act 1995 ("the Act") and subsequent legislation.

In preparing this Statement, the Trustees have consulted the Sponsoring Employer, Orange Business Holdings UK Limited, and have obtained advice from the Plan's investment consultant regarding the investment policy described by this statement. In matters where the investment policy may affect the Plan's funding policy, input has also been obtained from the Plan Actuary.

The Trustees are responsible for making decisions regarding the strategic (long-term) investment arrangements of the Plan. The Trustees consult with the Sponsoring Employer in making decisions, in particular in relation to the investment policy and strategy, and will take the Sponsoring Employer's views into account in setting the policy and strategic asset allocation. The final decisions however rest with the Trustees, having taken advice from the Plan's investment consultant in reaching those decisions. Day-to-day management of the Plan's investments is delegated to professional investment managers.

The Plan is a Defined Benefit arrangement and is governed by the Trust Deed and Rules dated 30 January 1996 and amending deeds. The Plan has been closed to new entrants since 1 January 1997, and closed to new accrual with effect from 31 July 2011.

2. Process for choosing investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set; and
- Construct a portfolio of investments that is expected to maximise the return given the targeted level of risk.

In considering appropriate investments for the Plan, the Trustees will obtain and consider the written advice of Mercer Limited in their capacity as the Plan's investment consultant, whom the Trustees believe to be a suitably qualified person. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995.

3. Investment objectives

To guide them in the strategic management of the Plan's assets, the Trustees (in consultation with the Sponsoring Employer) have considered their key investment objectives. The following primary objectives have been adopted:

- To make sure that the Trustees can meet their obligations to the beneficiaries of the Plan; and

- To pay due regard to the Sponsoring Employer's interests on the size and incidence of employer contribution payments.

4. Risk management and measurement

There are various risks to which any pension plan is exposed. The primary risks that the Trustees recognise and acknowledge are as follows:

- **Mismatch risk** – the primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities. While this is considered by the Trustees in setting investment strategy (particularly the Matching Portfolio), the Trustees acknowledge that by investing in Growth and Contractual Income assets they are exposed to this risk, and monitor the performance of the Plan's assets against the liabilities closely.

- **Interest rate risk –** declines in nominal and real interest rates will lead to an increase in the present value of the Plan's liabilities. To mitigate against this risk, the Plan's bond and LDI assets are structured to have broadly the same sensitivity to changes in interest rates as the Plan's funded liabilities. However, a decline in interest rates is expected to have a negative impact on the Plan's deficit.

- **Inflation risk** – an increase in market-implied inflation will result in an increase in the value of the Plan's liabilities. As such, the Plan's LDI assets are structured to have broadly the same sensitivity to changes in market-implied inflation as the Plan's funded liabilities. However, an increase in the value of market implied inflation is expected to have a negative impact on the Plan's deficit.

- **Sponsor Covenant risk –** the financial capacity and willingness of the Sponsoring Employer to support the Plan is a key consideration of the Trustees, and is reviewed on a regular basis.

- **Diversification risk** - the Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure to listed assets is obtained via pooled vehicles.

- **Credit risk –** a portion of the Plan's assets is invested in corporate bonds, through a Global Buy & Maintain Credit mandate with Legal & General Assurance (Pensions Management) Limited ("LGIM") and a Multi-Asset Credit ("MAC") mandate with Mercer Global Investments Europe ("MGIE"). This exposes the Plan to the risk that coupon and/or principal payments may not be made (i.e. there is risk of "default") within the portfolio. This risk is mitigated through diversification across issuers, sectors and regions, as well as thorough due diligence procedures that reduce the risk of default and / or losses in the event of default.

- **Equity risk** – the Trustees recognise that the Plan's assets in equity, through MGIE's Passive Global Equity mandates, expose the Plan to equity risk through the possibility of sharp drawdowns on the investments. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- **Manager risk –** the Plan invests with two managers; LGIM and MGIE. Both managers are considered to be specialists in terms of the mandates that they manage on behalf of the Plan. Any material developments at the Plan's managers are highlighted as part of regular reporting from the investment consultant.

- **Regulatory and political risk** - across all of the Plan's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Trustees will attempt to invest in a manner that seeks to minimise the impact of any such regulatory or political change should such a change occur.

- **Currency risk –** this risk arises from unhedged investment overseas. The MGIE Passive Global Equity mandates invest in overseas assets, though this is mitigated through investing 50% of the mandate into a share class where currency exposure is hedged back to sterling. The MGIE MAC mandate also invests in overseas currencies, but this is mitigated through the full hedging of the overseas currency exposure within the underlying components of this mandate. The LGIM Buy & Maintain Credit mandate will invest in overseas bonds, but all currency risk is hedged back to sterling. The Trustees will monitor this over time to ensure the managers' investment processes are robust.

- **Counterparty risk** – A portion of the Plan's assets managed by LGIM and MGIE, is invested in funds that enter into derivative contracts with counterparties, usually large banks. There is a risk that one or more of these counterparties could default on their obligations, resulting in a loss to the Plan. This is mitigated by limits on counterparty exposure. Where investment managers use derivatives it is the investment manager's responsibility to monitor their counterparty exposure.

- **Collateral adequacy risk –** Derivative instruments are used to hedge the interest rate and inflation sensitivity of the Plan's liabilities – this involves the use of leverage. Using leverage means small changes in underlying conditions can produce larger changes in the value of the Plan's investments than if only physical assets were held. Collateral adequacy is therefore the risk that underlying conditions negatively impact the Plan to the extent that additional assets will need to be used to support the use of derivatives. LGIM will inform the Plan on a regular basis of the optimal level of collateral, and what relation the current available collateral has as to these levels. The Trustees have not set a formal target with respect to the use of leverage but will monitor actual leverage levels over time.

- **Liquidity risk** - The Trustees recognise that there is liquidity risk in holding assets that are not readily marketable and realisable, such as the Plan's holding in High Lease to Value ("HLV") Property and, to a lesser extent, some of the underlying holdings within the MAC portfolio. Given the long-term investment horizon, the Trustees believe that a degree of liquidity risk is acceptable, given the potential additional return. The majority of the Plan's assets are realisable at relatively short notice.

- **Overseas risk free rate –** The risk that overseas risk free rates do not move in tandem with UK Gilts, which would cause additional volatility relative to the liabilities of overseas bonds within the Global Buy & Maintain Credit portfolio.

- **Environmental, Social and Governance risks (including but not limited to climate change) –** the Trustees recognises that these risks are considered to be financially material. Further information is set out in Section 10.

The risk and other factors set out above are those that the Trustees determine to be financially material over the Plan's anticipated lifetime.

Should there be a material change in the Plan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

5. Investment strategy

The Trustees review the investment strategy on a regular basis, typically after the triennial Actuarial Valuation, or more frequently as deemed appropriate. Key factors considered when reviewing the investment strategy include the Plan's liability profile, funding level, the risk tolerance of the Trustees, together with the willingness and ability of the Sponsoring Employer to financially support the Plan.

The target investment strategy of the Trustees is to invest the assets so as to achieve a broad split between "Growth" assets (those assets that should contribute to excess return over the liabilities), "Contractual Income" assets (with respect to the HLV Property mandate that provides secure, long-term, predictable cash flows) and "Matching" assets (those assets with liability matching characteristics) of 30%: 15%: 55%.

6. **Day-to-day management of the assets**

The Trustees delegate the day-to-day management of the assets to LGIM and MGIE. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Plan's investments on an ongoing basis. This includes receiving quarterly monitoring reports from the investment consultant to the Plan. An overview of each investment mandate is provided below.

MGIE – 30.0% of Total Assets

Passive Global Equity – 15.0% of Total Assets

The Plan invests in Hedged and Unhedged Passive Global Equity mandates, which give the Plan exposure to equity market movements and contribute the most to the expected return of the portfolio. The targeted investment of 50% of these in a Hedged mandate allows for the mitigation of some of the currency risk from overseas holdings, and the passive nature allows for the reduction of managements fees and the governance burden on the Trustees.

Given they are passively managed mandates, their investment objective is to track the MSCI World Index (Net Dividends Reinvested) ex Select Securities. The targeted tracking error is up to 50bps under normal market conditions.

Multi-Asset Credit – 15.0% of Total Assets

The investment in MAC provides exposure for the Plan to a broad opportunity set within sub-investment grade credit. At the time of writing, the mandate has an allocation to six underlying managers with different and complimentary styles, with a view to capturing the full opportunity set and improving risk-adjusted returns relative to allocating to a single provider.

The investment objective of the mandate is to outperform cash by 3-5% p.a. (net of fees) over rolling 5 year periods, with volatility of 5-10% p.a. over a full market cycle.

LGIM – 70.0% of Total Assets

The assets held with LGIM (HLV Property, Buy & Maintain Credit and LDI) are in the form of an insurance policy. The day-to-day responsibility for the investment management of the underlying assets of the insurance policy is delegated to an associate company, Legal & General Investment Management Limited ("LGIM").

In aggregate, the Matching Assets managed by LGIM (Buy & Maintain Credit and LDI) are designed to hedge c. 85% of the total interest rate and inflation sensitivity of the Plan's hedging basis liabilities (Gilts + 0.5% p.a.).

HLV Property – 15.0% of Total Assets

The LPI Income Property Fund invests in UK property with fixed-income characteristics, notably secure, long-term, predictable cash flows with a degree of inflation linkage.

There is no overall total return target, although the yield on any asset is expected to be 3% above the yield on an equivalent index-linked gilt. For performance measurement purposes, a target of RPI + 2% p.a. is used.

The majority of the total return (c. 70%) is expected to be generated through contractual lease income, with the remainder from capital appreciation (i.e. exposure to property markets).

Global Buy & Maintain Corporate Bonds –25.0% of Total Assets

The Plan invests in the Global Buy & Maintain Credit Fund. The investment objective is to capture the credit risk premium within a globally diversified portfolio, and preserve value over the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality.

LDI Portfolio – 30.0% of Total Assets

The Plan invests in a number of single stock gilt and index-linked gilt funds. The majority of these funds use leverage in order to achieve a greater degree of sensitivity to changes in interest rates and market-implied inflation. There is no external benchmark for the LDI portfolio, LGIM has been appointed to manage the assets in line with a Plan-specific benchmark based on the underlying liabilities of the Plan. The investment consultant will monitor the LDI portfolio on a quarterly basis to ensure this remains in line with expectations.

7. Cashflows & Rebalancing Policy Between Investment Managers

The distribution of the Plan's assets between managers will vary over time due to market movements and relative performance of each mandate.

The Plan has in the past been 'cashflow positive', meaning that cash inflows (e.g. employer contributions) were larger than cash outflows to meet benefit payments. However, the Plan is in the process of becoming 'cashflow negative', where regular disinvestments will be required in order to meet benefit payments.

The Trustees have agreed the following in respect of managing cashflow requirements and rebalancing of the Plan's assets over time.

a) All ad-hoc investments and disinvestments into (or out of) the invested assets should be done with a view to helping move the asset allocation back towards the overall target benchmark allocation at that time, unless advised otherwise by the investment consultant.

b) The Trustees have delegated authority for investments and disinvestments below a value of £250,000 to be processed by the investment consultant without the need for Trustee approval in each instance. The investment or disinvestment will be made with a view to helping move the asset allocation back towards the overall target benchmark allocation at that time, as per the overall principle for the cashflow management process.

c) The Trustees will regularly review the actual manager allocations versus the strategic benchmark allocations at Trustee meetings. If the allocations fall outside the control ranges set out in the table overleaf, the Trustees will consider rebalancing activity to remedy this.

Investment Manager	Target Allocation (%)	Control Range (%)
MGIE Passive Global Equity	15.0	10.0 – 20.0
MGIE Multi-Asset Credit	15.0	10.0 – 20.0
LGIM HLV Property	15.0	-*
LGIM Global Buy & Maintain Credit	25.0	20.0 – 30.0
LGIM LDI Portfolio	30.0	-**
Total	**100.0**	

* There is no control range around the LGIM HLV Property mandate given the illiquid nature of the asset class, which makes regular rebalancing impractical and expensive.

** There is no control range around the LGIM LDI Portfolio given the purpose of this mandate (i.e. to hedge liability risk). However, at various points the underlying funds within the LDI portfolio may either distribute capital or request additional capital, in order to manage the overall leverage within the solution. These requests will be dealt with on an ad-hoc basis.

8. Custody

The Plan's assets with LGIM and MGIE are invested in a range of pooled funds, whereby the Plan owns units in these funds. The safekeeping of the underlying assets of the pooled funds is performed on behalf of the investment managers by custodian banks specifically appointed to undertake this function.

9. Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

The investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustees utilise the investment consultant's manager research ratings in decisions around the selection, retention and realisation of manager appointments. These ratings are based on the investment consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the Trustees' wider investment objectives.

Some mandates are actively managed and where appropriate, the managers are incentivised through performance targets (an appointment would be reviewed following periods of sustained underperformance). The Trustees will review the appropriateness of using actively managed funds as part of the wider monitoring of the Plan's managers.

As the Trustees invest in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

With respect to the LDI portfolio, the manager has been appointed to manage the assets in line with a Plan-specific benchmark based on the underlying liabilities of the Plan.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, they will look to replace the manager.

Evaluating investment manager performance

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over a range of time periods. The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period), on both a gross and net of fees basis. The Trustees' focus is primarily on long term performance but short term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees instead of terminating the appointment.

Responsible Investing engagement with investment managers

The Trustees will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment consultant's ESG manager research ratings and the investment manager's policy on voting and engagement (where relevant). The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments. Further information is set out in Section 10.

Portfolio turnover costs

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments, within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees receive MiFID II reporting from their investment managers and the investment consultant (where applicable).

The Trustees ask the investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustees do not explicitly monitor portfolio turnover costs across the whole portfolio, but this is considered by the investment consultant and forms part of their research views.

Manager turnover

The Plan is a long-term investor and the Trustees are not looking to change the investment arrangements on a frequent basis.

The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment has been reviewed and the Trustees are no longer comfortable that the manager can deliver the mandate

10. Financially Material & Non-Financially Material Factors

Financially material considerations, including (but not limited to) ESG considerations (including but not limited to climate change) are considered by the Trustees.

The Trustees believe that Environmental, Social, and Corporate Governance (“ESG”) factors may have a material impact on investment risk and return outcomes, and seek to integrate ESG into their decision making and reporting processes. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Plan when considering how to integrate these issues into the investment decision making process.

The Trustees have given their investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising stewardship obligations attached to investments, including undertaking engagement activities in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

As the Trustees invest in pooled fund arrangements they have not set any investment restrictions on the appointed investment managers in relation to particular products or activities. However, with the assistance of the investment consultant, the Trustees monitor the activities of the investment managers in relation to ESG factors and risks, including engagement with investee firms and the exercise of voting rights.

The Trustees do not explicitly take into account any non-financial matters (for example the views of members of the Plan on ethical issues) in the selection, retention and realisation of assets.

11. Other Assets

The Trustees provide an Additional Voluntary Contribution (“AVC”) facility through the Plan with Aviva. The AVC arrangement with Aviva has been closed to new AVC payments since the closure of the Plan to future accrual on 31 July 2011.

The AVC arrangements are reviewed on a regular basis to ensure that the investment performance achieved is acceptable and the investment profile of the funds remain consistent with the objectives of the Trustees and needs of the members.

In addition, the Plan’s administrator (Mercer) operates a bank account on behalf of the Trustees for cash management purposes.

12. Employer Related Investments

The Trustees have no intention of directly investing assets in the Sponsoring Employer or its Parent.

However, the Plan’s investments are in pooled funds, meaning the investment manager has discretion over the stocks held and the investment restrictions that apply to the funds as a whole. It is therefore possible that the pooled funds include investments in the Sponsoring Company or its Parent. However, the Plan will not hold any employer related investment directly.

13. Compliance with this Statement

The investment managers will prepare regular reports, at least quarterly, to enable the Trustees to review investment activity.

The investment managers will notify the Trustees promptly of any breach of their investment management responsibilities as set out in their respective agreements.

14. Review of this statement

The Trustees will review this statement at least once every three years and without delay after any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustees and the Sponsoring Employer, which is judged to have a bearing on the stated Investment Policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified in their ability and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Ratified and adopted by the Trustees of the Sprint International (UK) Limited Retirement Benefits Plan – September 2023