Air Canada UK Pension Trust Fund

Statement of Investment Principles

1. Scope of Statement

This Statement of Investment Principles ("the Statement") has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005). It has also been drafted to reflect the Myners Code of Best Practice.

The effective date of this Statement is 30 September 2022. The Trustee will review this Statement and the Fund's investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

A copy of this Statement is available to the members of the Fund on request.

2. Responsibility for the Fund's investment strategy

The Trustee has consulted with the employer, Air Canada, prior to writing this Statement and will take the employer's comments into account when they believe it is appropriate to do so.

The Trustee are responsible for the investment strategy of the Air Canada UK Pension Trust Fund ("the Fund"). They have obtained written advice that the investment strategy is appropriate for the Fund and on the preparation of this Statement. This advice was provided by Aon Solutions UK Limited who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Fund's assets has been delegated to investment managers who are appropriately authorised and regulated as required under the Financial Services and Markets Act 2000 (amended by the Financial Services Act 2012).

3. Objective

The Trustee's aim to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided.

4. Choosing Investments

The assets of the Fund are invested in the best interests of the members and beneficiaries.

The Trustee has secured an Annuity Policy with Pension Insurance Corporation Plc ("PIC") which was implemented 15 December 2021.

This insurance contract ("buy-in") is an agreement for PIC to cover all the Fund liabilities as they fall due. A residual liability remains which is to be settled via a true-up payment. As such, the assets are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Fund. The buy-in protects the Fund from the interest rate, inflation and longevity risk associated with the benefits covered by the policy.

The Trustee retains responsibility for the investment of the Fund's residual assets, and take expert advice as required from their professional advisers and in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

The Trustee exercises their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

The Trustee reviews their investment strategy following each formal actuarial valuation of the Fund (or more frequently should the circumstances of the Fund change in a material way). The Trustee takes written advice from their professional advisers regarding an appropriate investment strategy for the Fund.

The asset allocation is set out in the Investment Policy Implementation Document ("the IPID"). It was reviewed following the Trustee's purchase of an Annuity Policy with PIC.

5. Investment Risk Measurement and Management

The Annuity Policy removes most of the investment risks to which the Fund may otherwise be exposed. The main residual risks are:

- The risk that PIC fail to make the pension payments covered by the Annuity Policy as they fall due ('Annuity Policy default risk'). This risk is mitigated by protections offered due to PIC being regulated by the Financial Conduct Authority and The Prudential Regulation Authority.

- The risk of a shortfall of liquid assets relative to the Fund's immediate liabilities and expenses ("cash flow risk"). The Trustee and its advisers will manage the Fund's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs. PIC is responsible for providing the cash for benefit payments covered by the Annuity Policy.

- 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 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.

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.

The Trustee's policy is to monitor these risks on a regular basis.

6. Arrangements with asset managers

The vast majority of the Fund's assets are invested with PIC in the form of an Annuity Policy. The remaining holdings are invested in government bonds and money market instruments. The Annuity Policy is intended to cover all the member liabilities of the Fund. A true-up payment is expected to cover a residual liability from the Annuity Policy.

Following the purchase of the Annuity Policy, and with the exception of the residual investments, the responsibility for managing arrangements with the asset managers lies with PIC. This responsibility may include ensuring that arrangements with appointed asset managers are aligned to achieving the long-term objectives of PIC and, as established within the contractual terms of the Annuity Policy, of the Fund. When selecting an insurer to provide a bulk annuity the Trustee considered ESG as one of the factors in their decision and undertook due diligence.

The Trustee monitors the Fund's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. In respect of the residual assets, this includes monitoring the extent to which the Fund's asset managers:

- Makes decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and

- Engages 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 their investment consultant.

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

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies.

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

Where asset managers are 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 first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically and at least every three years.

7. Custody

The majority of the assets are invested in the annuity policy underwritten by PIC. Post scheme year end, the Fund fully redeemed from the LGIM Sterling Liquidity Fund (with Citibank, N.A (London branch) as the custodian). The remainder of the assets are currently invested with BlackRock with the Bank of New York Mellon as the custodian.

The custodians are independent of the employer.

8. Expected Returns on Assets

Over the long-term the Trustee's expectations is for the annuity contract from PIC to pay the Fund an amount equivalent to the benefits insured.

Returns achieved by the remaining fund manager, BlackRock, are assessed against performance benchmarks set by the Trustee in consultation with their advisers and fund managers.

9. Realisation of Investments/Liquidity

PIC is responsible for providing the cash for benefit payments covered by the annuity policy.

As part of their delegated responsibilities, the Trustee expects the Fund's asset managers to take into account the retention and realisation of investments. The remaining assets held by BlackRock are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

10. Environmental, Social and Governance Considerations

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to purchase the annuities and recognise that they cannot therefore directly influence the ESG integration nor stewardship policies and practices of PIC. The Trustee is satisfied that the PIC's ESG policy reflects the key principles of socially responsible investment.

As part of their delegated responsibilities, the Trustee expects the Fund's remaining asset manager, BlackRock, to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Fund's assets and liabilities.

As part of ongoing monitoring of the Fund's asset managers, the Trustee will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Fund's asset managers' integration of ESG.

The Trustee will ask BlackRock to provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on a regular basis. Should the Fund look to appoint a new manager, where relevant and appropriate the Trustee will request this information as part of the selection process. All responses will be reviewed and monitored with input from the Fund's investment adviser.

Stewardship – Voting and Engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. Regarding the annuity policy and the collateral held in relation to them, the responsibility for voting and engagement is with PIC for these assets.

The Trustee expects BlackRock to use their influence as a major institutional investor to exercise the Fund’s rights and duties as a shareholder including voting, along with - where relevant and appropriate - engagement with underlying investee companies and assets to promote good corporate governance, accountability and positive change.

The Trustee acknowledges the limited materiality of stewardship for the residual assets that remain invested with BlackRock.

Members' Views and Non-Financial Factors

In setting and implementing the Fund’s investment strategy the Trustee does not explicitly take into account the views of Fund 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").

11. Costs & transparency

The Trustee paid a premium to PIC when the annuity policy was initiated, and as a result there are no ongoing fees in respect of the policy (where the majority of the Fund’s assets are held).

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

The Trustee collects annual cost transparency reports covering all of their investments and asks BlackRock provides this data in line with the appropriate Cost Transparency Initiative (“CTI”) template for each pooled fund. This allows the Trustee to understand exactly what the Fund is paying the asset manager. The Trustee works with their investment consultant and BlackRock to understand these costs in more detail where required.

The Trustee acknowledges that portfolio turnover costs are a necessary cost in order to generate investment returns and that the level of these costs varies across asset classes and pooled funds. A high level of transaction costs is acceptable so long as it is consistent with the asset class characteristics, manager’s style and historic trends. Where the Trustee’s monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee is supported in their cost transparency monitoring activity by their investment consultant.

12. Additional Voluntary Contributions (“AVCs”) Arrangements

Some members obtain further benefits by paying AVCs to the Fund. The liabilities in respect of these AVC’s are equal to the value of the investments bought by the contributions.

From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members' needs.

More details are provided in the IPID.

Approved by the Trustee in September 2022 on behalf Air Canada UK Pension Trust Fund