United States Air Force Pension and Life Assurance Scheme – United Kingdom

Statement of Investment Principles – February 2025

1. Introduction

The Trustees of the United States Air Force Pension and Life Assurance Scheme – United Kingdom (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

The Trustees have obtained and considered written professional advice from Mercer Limited (the "Investment Consultant") in preparing this Statement. The Trustees believe that the Investment Consultant meets the requirements of the Act (as amended). In matters where the investment policy may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary. The Trustees will obtain similar advice whenever they review this Statement.

The Trustees seek to maintain a good working relationship with United States Air Force (the "Sponsor") and will discuss any proposed changes to the Statement with the Sponsor. However, the Trustees' fiduciary obligations to the Scheme's members will take precedence over the Sponsor's wishes, should these ever conflict.

Stewardship of the investment arrangements can be divided into three areas. The first, the strategic management of the assets, is fundamentally the responsibility of the Trustees, acting on expert advice from the Investment Consultant, and is driven by the Scheme's investment objectives as set out in Section 3 below. The second area is the day-to-day management of the assets, which is delegated to professional investment managers and is described in Section 6. The third area is the ongoing measurement and monitoring of the performance of the appointed managers against predetermined benchmarks. Again, this is the responsibility of the Trustees.

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.
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk.

In considering the appropriate investments for the Scheme, the Trustees obtain and consider written advice from the Investment Consultant, who the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of the Act (as amended).

3. Investment Objectives

The Trustees' objectives are to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed several objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objectives are as follows:

i. To ensure that the Scheme can meet its obligations to members and other beneficiaries.

ii. To pay due regard to the Sponsor's position in relation to the size and incidence of the Sponsor's contribution payments.

At the latest actuarial valuation, the Actuary assumed that the Scheme would achieve an investment rate of return on assets which exceeds that available from gilts. The Statement of Funding Principles agreed as part of the valuation allows for the assumed investment return to be updated to reflect changes made to the Scheme's investment strategy. Based on advice from the Investment Consultant about realistic long-term assumptions, the Trustees expect the investment return resulting from the strategy adopted by the Scheme to at least meet the prudent expectations of the Actuary.

4. Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme.

The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises because of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy.

- The Trustees acknowledge that the use of leveraged instruments to manage the mismatch between the Scheme's assets and its liabilities means that there is a risk that the Scheme does not have sufficient liquid assets to meet collateral calls, which may result in a forced reduction in the level of matching the assets provide. This risk is managed through the implementation of a collateral management framework. Further details on this framework are provided in Section 7 of this Statement, as well as in the Trustees' Liability Driven Investment ("LDI") Implementation Policy, which is available on request.

- The Trustees are also cognisant of the liquidity risk associated with disinvesting assets to pay members' benefits. The Scheme's investment strategy is based around a cashflow-driven investment ("CDI") approach. The Scheme's assets are therefore invested such that the expected cashflows they generate broadly match a proportion of the Scheme's expected liability cashflow profile (noting that the intention is to match as high a proportion as practicable, considering the other risks the Trustees are seeking to mitigate).

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities, as well as producing more short-term volatility in the Scheme's funding position. The Trustees have taken advice on the matter and (given the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from a 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, whilst acknowledging constraints over the Trustees' ability to implement and effectively monitor the range of investments being considered. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The risk that the returns of certain asset classes and sectors may be significantly affected by climate change and other Environmental, Social and Governance ("ESG") risks. The Trustees take these risks into account in the selection, retention and realisation of investment managers. The Trustees' policies on ESG risks are set out later in this statement and in the Trustees' ESG Policy document, which is available on request.

- The Trustees recognise that currency risk may also arise due to investment in overseas markets and looks to mitigate this through diversification across markets and currency hedging. Investments are also made in sterling denominated funds where possible.

- The Trustees recognise the need for liquidity within the Scheme's investment strategy and therefore looks to invest in funds which are readily marketable. Where this is not the case, consideration is given to the overall liquidity of the Scheme's assets with the aim of ensuring that there is sufficient liquidity to meet the Scheme's ongoing cashflow requirements, including those associated with the potential recapitalisation of holdings in partially funded gilt funds.

- The Trustees acknowledge the risk that the day-to-day management of the assets may not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment management involves such a risk.

The Trustees believe that the investment strategy provides adequate diversification, both within and across different asset classes and sectors. The Trustees further believe that the current investment strategy is appropriate given the Scheme's liability profile.

In deciding to take investment risk relative to the liabilities, the Trustees have carefully considered the following possible consequences:

- The assets might not achieve the excess return relative to the liabilities anticipated over the longer-term. This would result in the deterioration of the Scheme's financial position and consequently higher contributions than currently expected from the Sponsor.

- The relative value of the assets and liabilities will be more volatile over the short-term than if investment risk had not been taken. This risk will therefore increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Scheme. This consequence is particularly serious if it coincides with the Sponsor being unable to make good the shortfall.

- This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.

The Trustees have taken advice on these issues from the Investment Consultant and the Scheme Actuary. They have also held related discussions with the Sponsor.

The Trustees' willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Scheme.

The Trustees believe that the risks set out above may be financially material to the Scheme and have therefore adopted various policies to manage these risks over the Scheme's anticipated lifetime. However, the Trustees acknowledge that it is not possible to monitor all the risks listed above at all times and so seek to take on those risks they expect to be rewarded over time, in the form of excess returns, in a diversified manner.

The resulting combination of assets has been selected to be consistent with the investment objective, risk tolerance and return target detailed above. The investment managers for the Scheme must have regard to the need for diversification and suitability of assets. The arrangements with the investment managers include several guidelines and restrictions, which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the Scheme's investment managers. These reports include an analysis of the overall level of return, to ensure the risks taken and returns achieved are consistent with those expected. The Trustees also take advice from the Investment Consultant on the investment managers' performance, as required.

5. Investment Strategy

Given the investment objectives, the Trustees have implemented an investment strategy comprising a portfolio invested 15% in growth assets and 85% in matching assets.

The growth portfolio is invested in a diversified growth fund ("DGF"). The DGF provides a low governance way of achieving exposure to a range of asset classes and strategies, thereby increasing the diversification of the Scheme's investment arrangements.

The primary objective of the matching portfolio is to reduce the mismatch between the Scheme's assets and liabilities. The Trustees have set a liability hedging target of 90%, measured on the technical provisions basis agreed as part of the 5 April 2021 actuarial valuation. The liability hedging target is delivered via a LDI portfolio, which invests in funded gilts funds, partially funded gilt funds and cash.

The Trustees have also decided to invest a proportion of the matching portfolio in non-government bonds. This is due to the potential return premium offered on these bonds over equivalent government bonds, having due regard to the additional credit risk associated with such investments, as well as the ability to use the income they generate to match projected benefit payments to members, consistent with a CDI approach.

The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

The table below shows the investment strategy which has been agreed.

Asset Class	Benchmark Allocation (%)
Growth assets	**15.0**
DGF	15.0
Matching assets	**85.0**
Corporate bonds	55.0
LDI (including cash)	30.0
Total	**100.0**

6. Day-to-Day Management of the Assets

The Trustees invest the Scheme's assets in pooled fund arrangements managed by Insight Investment Management Limited ("Insight").

The Trustees regularly review the continuing suitability of the Scheme's investments, which may be adjusted from time to time. However, any such adjustments would be implemented with the aim of ensuring the overall level of risk is consistent with that being targeted.

The tables below show the funds in which the Scheme is invested together with their associated benchmarks.

Insight DGF

Fund	Benchmark Index	Performance Objective (% p.a.)[1]
Broad Opportunities Fund	SONIA	4.5%

1 Over a rolling 5-year period, gross of fees.

Insight Maturing Buy and Maintain Corporate Bonds

Fund	Benchmark Index
Maturing Buy and Maintain Bond Funds	Customised iBoxx indices

The performance objective is to match the benchmark return on a gross of fees basis. Insight seeks to deliver this objective by investing primarily in a portfolio of debt securities maturing mainly within the five-year period defined in the name of the Fund.

Prior to the period over which the relevant Fund’s underlying bond principal payments are returned to investors:

- Not more than 30% of each Fund’s net asset value (“NAV”) shall be exposed to credit risk from any one iBoxx Level 3 Sector (excluding exposure to government bonds).

- Not more than 2.5% of each Fund’s NAV shall be exposed to credit risk from any individual issuer (excluding exposure to government bonds denominated in EUR, GBP, and USD) at the point of purchase. As an exception to this, in view of the fact that orders for bond issues in the primary market are often not completely filled, Insight is authorised to place orders in the primary market on the Fund’s behalf in excess of this limit, provided that not more than 5% of the relevant Fund’s NAV would be exposed to credit risk from the relevant issuer at the point of purchase, even if the order were completely filled. While these limits represent purchase guidelines, should any Fund’s exposure to credit risk from any individual issuer exceed 3% of the Fund’s NAV, Insight will reduce this exposure below 3% of the Fund’s NAV within 90 calendar days.

Insight LDI Portfolio

Fund	Benchmark Index	Performance Objective
Partially Funded Gilts Funds	Composite	Provide fixed and inflation-linked returns
Funded Gilts Funds	Composite	Provide fixed and inflation-linked returns
Liquidity Plus Fund	SONIA	Provide stability of capital and income through investment in short-term fixed income and variable rate securities

7. Collateral Management Framework

The Trustees have established a collateral management framework to mitigate the risk that the target level of liability hedging cannot be maintained as yields increase, due to there being insufficient assets available to meet the collateral calls associated with the Scheme’s investments in leveraged LDI funds within the required timescales. Under this arrangement, Insight has authority to automatically source cash for de-leveraging purposes from the Scheme’s holding in the Liquidity Plus Fund. Insight is also able to re-invest the proceeds of any re-leveraging events into this Fund.

In addition, the Trustees have established a process for topping-up the Scheme's holding in the Liquidity Plus Fund from the DGF if required. This is underpinned by ongoing monitoring of the Scheme's asset allocation and collateral position. Further details in relation to the collateral management framework are provided in the Trustees' LDI Implementation Policy, which is available on request.

8. Investment Manager Appointment and Ongoing Monitoring

In selecting the investment managers, the Trustees have taken advice from the Investment Consultant regarding their perceived investment capabilities and the fees for such capabilities.

The Trustees will seek guidance from the investment consultant on their forward-looking assessment of the managers' ability to deliver upon their stated objectives over a full market cycle. This view will be based on the consultant's assessment of the managers' idea generation, portfolio construction, implementation and business management (amongst other things), in relation to the strategies that the Scheme invests in. The consultant's manager research ratings assist with due diligence and (where available) are used in decisions around selection, retention and realisation of manager appointments.

The Trustees will review an appointment if the investment objective for a manager's fund changes, to ensure it remains appropriate and consistent with the Trustees' wider investment objectives. As the Scheme invests in pooled investment vehicles, the Trustees 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.

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

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and 5 years.

The Trustees review the absolute performance of the relevant funds, as well as their relative performance versus a suitable benchmark index and against the managers' stated performance targets (over the relevant period). The Trustees' focus is on long-term performance. However, as noted above, they may review a manager's appointment if:

- There are sustained periods of the manager failing to achieve their stated investment objectives.
- There is a change in the portfolio manager of a fund.
- There is a change in the underlying objectives of the investment manager.
- There is a significant change to the investment consultant's rating of the manager.

The Trustees are long-term investors and are not seeking to change investment arrangements on a frequent basis. As the Trustees are invested in open-ended pooled funds, there is no set duration for the appointment of the investment managers. The Trustees will therefore retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to a particular asset class, or the Trustees decide to terminate the mandate following a review of the manager's performance or otherwise.

The Trustees do not actively monitor portfolio turnover costs. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask the managers to report on portfolio turnover cost.

9. Custodians

Insight is responsible for the appointment and monitoring of the custodians of the assets held within the pooled funds in which the Scheme invests. The role of the custodians is to ensure the safe keeping of the assets within the pooled funds and to facilitate all transactions entered by the appointed investment managers. The custodians are also responsible for record-keeping in relation to the assets held within Insight's funds.

10. Rebalancing Policy

No automatic rebalancing of the Scheme's investment arrangements currently takes place. Instead, the Trustees will review the Scheme's asset allocation relative to the benchmark allocation on a periodic basis (at least quarterly) to determine whether any rebalancing is required. A rebalancing discussion will be triggered if any of the Scheme's allocations deviate by more than ±5% from the benchmark allocation outlined in Section 5 of this Statement.

11. Realisation of Investments

In general, the Scheme's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, since the Scheme's assets are invested in pooled funds. The Scheme's investment managers have responsibility for generating the cash required to meet benefit outgo as and when instructed by the Trustees. Cashflows will be applied to tighten the asset allocation to the benchmark.

12. Socially Responsible Investment and Corporate Governance

The Trustees believe that ESG factors, including climate change, have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, as well as for exercising the voting rights and stewardship obligations attached to the investments. The Trustees review the investment managers' policies and engagement activities on an annual basis.

As the assets of the Scheme are invested in pooled vehicles, the Trustees accept that the assets are subject to the investment managers' own policies on social, environmental and ethical investment. As such, the Trustees consider it important that ESG factors, including climate change, are integrated into the investment process of the managers they have appointed, where this is practical.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment managers using ESG ratings provided by the investment consultant. The Trustees will consider how a manager's approach to ESG integration, climate change, stewardship and responsible investment aligns with the Trustees' policies when determining future investment strategy decisions and manager or mandate appointments.

The Trustees also recognise the importance of good stewardship as a fundamental part of the activity of the appointed managers. The Trustees accept that by using pooled investment vehicles the Scheme's voting rights are exercised by the appointed investment managers in accordance with their own corporate governance policies, taking account current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The Trustees' key stewardship themes are:

- Climate change.
- Board diversity.
- Executive remuneration.

The Trustees have determined these priorities based on their ESG beliefs, considering the Sponsor's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustees' policies on stewardship and engagement.

Member views, including their ethical views, are not considered in the selection, retention and realisation of investments. However, this position may be reviewed in the future.

The ESG Policy, which is available on request, contains further details regarding how the Trustees manage ESG risks and opportunities.

13. Additional Voluntary Contributions ("AVCs")

Assets in respect of members' Additional Voluntary Contributions ("AVCs") are held in the SSGA Sterling Liquidity Fund.

14. Advisors to the Trustees

Actuary

Catriona Probert of Mercer Limited is the appointed Scheme Actuary.

The actuary performs a valuation of the Scheme at least every three years. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Sponsor's contribution rate.

Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to the investment managers, all other investment decisions, including strategic asset allocation and selection and monitoring of the investment managers, is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

15. Fees

Manager fees

For the assets managed by Insight, management fees are detailed as follows:

Fund	Management Fee
Broad Opportunities Fund	0.50% p.a. on assets under management
Partially Funded Gilts Funds	0.06% p.a. on the exposure value
Funded Gilts Funds	0.05% p.a. on assets under management
Maturing Buy and Maintain Bond Funds	0.15% p.a. on assets under management
Liquidity Plus	0.10% p.a. on assets under management

Investment Advisor Fees

The Investment Consultant typically works based on either a fixed project fee, which is agreed in advance with the Trustees, or on a time cost basis.

16. Compliance with and Review of this Statement

The Trustees monitor compliance with this Statement.

The Trustees will review this Statement at least once every three years and without delay after any significant change to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsor, which it judges to have a bearing on the stated investment policy. Any change to this Statement will only be made after having obtained and considered the advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. Any such review will also be carried out in consultation with the Sponsor.

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Trustee	Trustee
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Date	Date

The Trustees of the United States Air Force Pension and Life Assurance Scheme – United Kingdom