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

Statement of Investment Principles – June 2021

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 Section 35 (3) of the Pensions Act 1995. 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 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 Section 36 of the Pensions Act 1995 (as amended).

- The risk that the returns of certain assets classes and sectors may be significantly affected by climate change and Environmental, Social and Governance ("ESG") risks. The Trustees take climate risk into account in the selection, retention and realisation of the Scheme's investment managers. The Trustees' policies on ESG risks are set out later on in this statement.

- 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 by the use of currency hedging within the Scheme's equity portfolio. 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.

- The Trustees acknowledge the risk that the day to day management of the assets will 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 and so a large component of the Scheme's assets are passively managed.

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 Trustee has 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 more 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. It has also held related discussions with the Sponsor.

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 80%, measured on the technical provisions basis. This will be achieved following an initial period over which the extent of liability hedging will be increased to the target level on a phased basis. This is expected to be completed before the end of 2022.

The liability hedging target is delivered via a liability driven investment ("LDI") portfolio, which invests in 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 assets over equivalent government bonds, having due regard to the additional credit risk associated with such investments.

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	**50.0**
Equity	35.0
UK	*3.5*
Overseas (50% currency hedged)	*31.5*
DGF	15.0
Matching assets	**50.0**
Corporate bonds	20.0
LDI	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 State Street Global Advisors ("SSgA") and 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 LDI Portfolio

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

7. Investment Manager Appointments and Ongoing Monitoring

In selecting the investment managers, the Trustees have taken advice from the Investment Consultant with regard to 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 particular 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 mandate 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 time 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 its stated investment objectives.

- There is a change in the portfolio manager of a fund.

11. Socially Responsible Investment and Corporate Governance

The Trustees believe that environmental, social, and corporate governance ("ESG") factors 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, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees will 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.

The Trustees increasingly consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment managers through the use of 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.

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

12. Additional Voluntary Contributions ("AVCs")

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

13. Advisors to the Trustees

Actuary

Adam Tidey 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 Participating Employers' contribution rate.

M J Belinfante

Trustee

MaryJane Belinfante

Date 23 Sep 2021

Trustee

Michael J. Rooney

Date 23 Sep 2021

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