Air Canada UK Pensions 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 27 August 2020. The Trustees 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 Trustees have 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 Trustees are responsible for the investment strategy of the Air Canada UK Pensions 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 Hewitt Ltd 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. Objectives

The Trustees' objectives for the investment strategy of the Fund have been set with regard to the Fund's Statutory Funding Objectives as set out in the Statement of Funding Principles.

The Trustees' primary objectives are:

- "funding objective" - to ensure that the Fund is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Fund's investment strategy; and

- “security objective” – to ensure that the solvency position of the Fund (as assessed on a gilt basis) is expected to improve.

4. The Balance Between Different Kinds of Investments

The Trustees retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers.

The Trustees review 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 Trustees take 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 implementation of the updated investment strategy.

A broad range of available asset classes has been considered. This includes consideration of so called “alternative” asset classes (including property and hedge funds).

5. Investment Risk Measurement and Management

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. This is assessed triennially in conjunction with the actuarial valuation of the Fund, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Employer Covenant

Risks associated with changes in the employer covenant are assessed by the Trustees on a regular basis. The Trustees recognise the importance of the Employer Covenant in the ongoing security and solvency of the Fund.

Fund Managers

The Trustees monitor the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by their professional advisors. The Trustees have appointed Aon Hewitt Limited to alert them on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

6. Choosing Investments

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

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Fund, its cashflow requirements, the funding level of the Fund and the Trustees' objectives.

Assets held to cover the Fund's technical provisions (the liabilities of the Fund) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes.

Investment management responsibility is delegated to the investment managers who were appointed by the Trustees. With regards to the review and selection of their investment manager, the Trustees take expert advice.

The assets of the Fund are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

7. Arrangements with asset managers

The Trustees monitor the scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the trustees' policies. This includes monitoring the extent to which asset managers:

- **Make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and**
- **Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.**

The Trustees are supported in this monitoring activity by their investment consultant.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset managers, which supports the trustees in determining the extent to which the Plan's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the Fund's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustees' policies.

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

The Trustees believe 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 trustees' 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 Trustees' policies, expectations, or the other considerations set out above, the trustees 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.

8. Custody

Custody services are used for the Fund's assets invested in segregated mandates. RBC Investor Services Limited has been appointed custodian of these assets.

For the Fund's investments in pooled funds, the investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds are responsible for the appointment and monitoring of the custodian of the fund's assets.

The custodians are independent of the employer.

9. Expected Returns on Assets

Over the long-term the Trustees' expectations are to achieve a return which at least keeps pace with the increase in national average earnings. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers.

10. Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

11. Environmental, Social and Governance Considerations

In setting the Fund's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

As part of their delegated responsibilities, the Trustees expect the Fund's investment managers to**:**

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise voting rights in relation to the Fund's assets.

The Trustees regularly review the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset managers, which supports the Trustees in determining the extent to which the Fund's engagement policy has been followed throughout the year.

From time to time, the trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustees may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do 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"[1]).

12. Costs & transparency

The Trustees are 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 Trustees recognise 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 Trustees collect annual cost transparency reports covering all of their investments and ask that the investment manager provides this data in line with the appropriate Cost Transparency Initiative ("CTI") template for each pooled fund. This allows the Trustees to understand exactly what the Fund is paying the asset manager. The Trustees work with their investment consultant and asset manager to understand these costs in more detail where required.

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

The reports will set out the following on an itemised basis:

- **The total amount of investment costs incurred by the Fund;**
- **The fees paid to the asset manager;**
- **The amount of portfolio turnover costs (transaction costs) incurred by the asset manager;**
- **The Trustees define portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the pooled funds;**
- **Any charges incurred through the use of pooled funds (custody, administration, and audit fees)**
- **The impact of costs on the investment return achieved by the Fund.**

The Trustees acknowledge 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 Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustees are supported in their cost transparency monitoring activity by their investment consultant.

13. 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 Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

More details are provided in the IPID.

Wayne Phelan		28 August 2020
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Name (Print)	Signature	Date

Signed for and on behalf Air Canada UK Pension Trust Fund