ANZ UK Staff Pension Scheme

Statement of Investment Principles

This is the Statement of Investment Principles made by the Trustee of the ANZ UK Staff Pension Scheme (the 'Scheme') in accordance with the Pensions Act 1995 (as amended) and The Occupational Pension Schemes (Investment) Regulations 2005 (as amended). It is subject to periodic review by the Trustee at least every three years and as soon as practicable after any significant change in investment policy, for example at the next Trustee meeting or annual review of the Scheme's governance documents.

In preparing this Statement, the Trustee has consulted with the principal employer to the Scheme, Australia and New Zealand Banking Group Limited (the 'Sponsor'), and has taken and considered written advice from Hymans Robertson LLP, as the Scheme's appointed investment advisor.

The principles and practices adopted by the Trustee as the basis for its investment decision making are set out in its Scheme Governance Principles document.

Scheme Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's over-riding funding principle for the Scheme is to set the employer contribution at a level which is sufficient:

- to ensure that there will be sufficient assets in the Scheme to meet benefits in full, as they fall due for payment to members;
- to build up assets to provide for the accrual of future benefits for active members over time;
- to recover any shortfall in assets, relative to the value placed on accrued liabilities, over the medium term.

For active members, the Scheme's valuation of these liabilities is based on pension benefits accrued up to the date of the last formal actuarial valuation and includes an allowance for future salary increases. The value of liabilities for all members and dependants is calculated on the basis agreed by the Trustee and the Sponsor, having taken advice from the Scheme actuary; the Trustee also considers the Scheme's funding position on more stringent self-sufficiency and buy out bases. These funding positions are monitored regularly by the Trustee and explicitly reviewed at each formal actuarial valuation, or more frequently as required by the Pensions Act 2004. The Statement of Funding Principles, which is agreed between the Trustee and the Sponsor, sets out in more detail the Trustee's policy for securing its funding objective.

Investment Strategy

The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to an authorised investment manager. The strategic benchmark has been translated into benchmarked mandates which are consistent with the Scheme's overall strategy. The Scheme benchmark is consistent with the Trustee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit. The Trustee also considers the strength of the Sponsor's covenant when setting the investment strategy for the Scheme and keeps this covenant under regular review. The Trustee monitors its prevailing asset allocation relative to the agreed asset allocation benchmark. The strategic asset allocation will normally be reviewed annually and more frequently if required.

To achieve its objectives the Trustee has agreed the following with its manager:-

Choosing investments

The Trustee currently mandates an investment manager who is authorised under the Financial Services and Markets Act 2000 and regulated by the Financial Conduct Authority to undertake investment management. The Trustee, after seeking appropriate investment advice, has given the investment manager specific directions as to the asset allocation within the Scheme's mandates. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Subject to its benchmarks and guidelines, the investment manager, Insight, is given full discretion over its choice of securities within the Scheme's segregated mandates. The mandates have been designed to match the Scheme's liabilities and deliver distributions to help meet the Scheme's short to medium term cashflow requirements, and hence reduce risk. As such, Insight will invest in bonds, cash and derivatives which help the assets to move in line with the Scheme's liabilities.

The Trustee also invests in one pooled fund with Insight. The Trustee may decide to introduce more pooled vehicles into the investment strategy if tailoring mandates specifically for the Scheme is not achievable or not cost-efficient. In such cases, the Trustee ensures that the objectives of the pooled funds and the policies of the investment manager are appropriate for the needs of the Scheme.

Remuneration for the investment manager is determined at the inception of each mandate based on commercial considerations and typically fees are charged in proportion to the value of the assets managed. Where appropriate to the nature of the mandate, the term of the mandate and the role that the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower fee charged in proportion to the value of assets under management. The Trustee periodically reviews the fees paid to its investment manager against industry standards.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustee recognises the long term nature of its liability profile and appointed its manager to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The Trustee currently invests only in open-ended investments. For this type of investment, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated. All mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

The Trustee reviews the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed. The manager is expected to provide explanation for any significant deviations away from benchmark or target, as appropriate.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index-linked bonds, cash, property and commodities either directly or through pooled funds. The Scheme may also make use of contracts for differences and other derivatives (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable after having taken investment advice.

Balance between different kinds of investments

The strategic asset allocation of the Scheme includes a mix of asset classes across a range of geographic regions in order to provide diversification of returns. The Scheme's investment manager will hold a mix of investments within its mandates which reflects its views relative to its respective benchmarks. The manager will maintain a diversified portfolio through direct investment or pooled vehicles within each major market. We note that within the Liability Driven Investment ("LDI") mandate Insight has the added restriction of tracking the Scheme's liabilities and hence the scope to diversify by region and/or asset class is much less than the other mandates. The Trustee has however agreed with Insight restrictions to help balance the risks in this mandate.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – 1. The risk that Scheme assets fail to grow in line with the developing cost of meeting Scheme liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Scheme assets do not grow fast enough to meet the increased cost.

- Changing demographics – The risk that longevity improves and other demographic factors change increasing the cost of Scheme benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Scheme liabilities.

The Trustee measures and manages financial mismatch in two ways. As previously indicated, it has set a strategic asset allocation benchmark for the Scheme. It assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities. Insight have been given a mandate which directly links the performance of the Scheme's assets to the liabilities. Implementing this type of mandate has the primary purpose of managing the financial mismatch risk in a controlled manner.

The Trustee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered explicitly at each formal valuation. The Trustee may enter into insurance contracts (e.g. bulk annuities) to reduce these demographic risks.

The Trustee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving the Scheme's funding objectives.

- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.

- Manager underperformance - The failure by the fund manager to achieve the rate of investment return assumed in setting its mandates.

- Environmental, Social and Governance (ESG) risks – The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee manages asset risks by monitoring the Scheme's investments against its strategic asset allocation benchmark and mandate specific rebalancing ranges. The benchmark, as previously indicated, comprises a range of asset classes and investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Trustee's expected parameters. By investing across a range of assets, including bonds and cash, the Trustee has recognised the increasing need for some access to liquidity in the short term as the Scheme matures. In investing the Scheme's assets, the Trustee has considered the risk of underperformance by any single mandate.

The decision to appoint only one investment manager does involve some degree of risk (from potential underperformance of that manager) which the Trustee accepts as a reasonable compromise given the size of the portfolio and the needs of the Scheme.

The Trustee does not expect the manager to take excess short term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers or mandates. When carrying out significant transitions, the Trustee takes professional advice and considers the appointment of specialist transition managers.

- Custody risk - The risk of losing economic rights to Scheme assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Scheme.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets which, taken in conjunction with contributions, is sufficient over time to meet the Scheme's liabilities.

Realisation of investments

The majority of the Scheme's investments may be realised quickly if required.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects the manager to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustee will challenge its manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. The Trustee will request details of the turnover costs incurred by the investment manager over the Scheme reporting year.

Environmental, Social and Governance ("ESG") considerations

Sustainable investment

The Trustee recognises that environmental, social and governance considerations are among the financially material factors which the investment manager will take into account, where relevant, when selecting investments for purchase, retention or sale. The Trustee has explicitly acknowledged the relevance of ESG factors in framing its investment beliefs, and these beliefs are reflected in the principles set out below and in the broader implementation of the Scheme's investment strategy. The Trustee has reviewed the Sponsor's policies on ESG factors and has taken these into account when forming its own policies.

The Scheme's strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Noting the objectives of the Scheme, the Trustee has not considered any non-financially material factors in the development and implementation of the investment strategy. The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting the strategic benchmark. The Trustee periodically discusses climate change with its investment adviser and investment manager to consider the potential implications for the Scheme's investments.

Given the discretion afforded to the investment manager in relation to the Scheme's active mandates, the Trustee expects that the investment manager will take account of all financially material factors including the potential impact of ESG factors in the implementation of its mandates.

Within active mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to the investment manager. The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of the investment manager and is satisfied that the manager is following an approach which takes account of all financially material factors.

The Trustee does not explicitly tilt the Scheme's investments towards companies that demonstrate a more positive approach to ESG. The Trustee regularly discusses with its investment manager how it incorporates its ESG approaches into its investment processes in order to get comfortable that its investment manager has the ability to assess how long-term risks, including those which are derived from ESG issues, could impact on the Scheme's assets. The Trustee is reliant on the manager to mitigate these risks.

Where investment is made on an index tracking basis, the manager is required to invest in line with the benchmark index; consequently, there is little discretion over the choice of securities in the portfolio. However, the Trustee regularly meets with the Scheme's investment manager to monitor its performance and governance approach and would review the index benchmarks employed for the Scheme on at least a triennial basis.

The manager has also produced statements setting out its policy on ESG factors. The manager has been delegated by the Trustee to act accordingly. The Trustee pro-actively questions the Scheme's manager about its environmental, social and governance activities and policies during regular monitoring meetings.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustee explicitly considers potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in its decision making.

Effective stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

The Trustee expects its investment manager to comply with the Financial Reporting Council's UK Stewardship Code, or equivalent relevant country-specific regulations, and to explain any non-compliance. In the event that the manager does not adhere to a recognised set of principles for responsible investment, the Trustee will seek the manager's explanation and takes reasonable steps to ensure that it is comfortable with the policy that the manager has in place in respect of this.

The Trustee has delegated the exercise of any voting rights to the investment manager on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value cognisant of the environment, social & ethical responsibility and good corporate governance. Accordingly, the manager has produced written guidelines of its process and practice in this regard. The manager is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Where relevant, the Trustee will review the voting policies of its investment manager and determine that these policies are appropriate. The Trustee will request its investment manager provide details of any change in its house policy periodically.

The Trustee does not engage directly but believes it is sometimes appropriate for its investment manager to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to its investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by its investment manager as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

The Trustee's Investment Committee ("IC") aims to meet with the Scheme's investment manager on a quarterly basis. The IC provides the manager with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG and stewardship issues. The manager is challenged both directly by the IC and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Stock Lending

The Scheme does not currently hold any listed equities, but if this were to change in future the Trustee has agreed to delegate the decisions on stock lending to the Scheme's investment manager. For completeness, stock lending is not permitted in any of the Insight mandates.

Additional Voluntary Contributions (AVCs)

The Trustee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Signed for and on behalf of ANZ Pensions (UK) Limited
Trustee of the ANZ UK Staff Pension Scheme

Original signed by Peter Goshawk

Director

Original signed by David Ward

Director

24 September 2020