ITV PENSION SCHEME
DEFINED BENEFIT SECTION

Statement of INVESTMENT PRINCIPLES

Introduction

1 This Statement of Investment Principles (SIP) has been prepared by the Directors of ITV Pension Scheme Limited (the Trustee Board) and relates to the ITV Pension Scheme (the Scheme), which is a registered pension scheme for the purposes of Chapter 2 of Part 4 of the Finance Act 2004.

2 The Scheme provides retirement and death benefits for eligible members and dependents.

3 This SIP relates to the Defined Benefit Section only.

4 This SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 as amended and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

5 The Trustee Board will review this SIP at least every three years to coincide with the triennial valuation process, or without delay if there are significant changes in investment policy or there is a material change to the Scheme's funding position or other circumstances which, the Trustee Board determines, warrant a reconsideration of strategic asset allocation and risk tolerance beyond responses envisaged in the latest statement of investment principles. Before finalising this SIP, the Trustee Board took written advice from the Scheme's Investment Consultant (WTW) and consulted with the Scheme's sponsor, ITV Services Limited as Principal Employer. The ultimate power and responsibility for deciding investment policy, lies solely with the Trustee Board.

6 The Trustee Board will consult ITV Services Limited on any changes to this document.

Scheme objectives

7 The Trustee Board is responsible for the stewardship of the Scheme's assets. The overriding objective of the Scheme is to ensure that there are sufficient assets available in the Scheme to meet the payment of pension obligations in full as they fall due.

8 The Scheme is approaching full funding on a low-risk basis. As a result, the Scheme has transitioned to a cashflow matching approach in order to meet its overriding objective. This approach is continuously evolving and focusses on investing in high-quality assets delivering contractual cashflows as far as is practical, consistent with the Scheme's long-term objective to have a high-quality income generating portfolio to deliver cash to pay for benefit outgo. The aim of this approach is to reduce the volatility of the Scheme's funding position and provide greater security for payment of members' benefits.

9 In addition, the Trustee Board aims to generate a positive return from its investment activities in order to eliminate any funding deficit and build the funding level year on year in order to support a low-risk self-sufficiency funding basis. Full elimination of the deficit will be achieved by a combination of investment returns and where necessary additional cash contributions received from the employer.

10 Delivering this investment strategy entails taking risk versus the liabilities. It is a key role of the investment policy to identify not only the target level of return but also the acceptable level of risk that the Trustee Board is prepared to run in order to achieve that return. The Trustee Board's attitude to risk will be determined by a number of factors including (but not limited to) the strength of the employer, the maturity of the Scheme and the investment options available.

11 Managing and monitoring an investment portfolio is necessarily complex and requires significant amounts of professional expertise. As well as focusing on investment return and risk and managing other risks associated with running a pension scheme, the Trustee Board seeks to ensure that the portfolio is managed as cost efficiently as possible over the long-term.

12 The Trustee Board further recognises that the complexity of modern investment demands specialist expertise, experience and a significant amount of time. For this reason, the Trustee Board has formed an Investment Working Group (IWG), a sub-group of the Trustee Board, to oversee the investment portfolio and handle certain investment matters.

13 The remit of the IWG is defined within formal Terms of Reference. The Trustee Board reviews these Terms of Reference periodically, with the most recent review at the time of writing taking place in November 2023.

14 The Trustee Board will review performance objectives regularly and amend as appropriate.

Investment strategy

15 The Trustee Board has developed a set of core investment principles to aid in portfolio structuring and investment decision-making. These principles are categorised into broad areas relating to setting the overall mission of the Scheme, the governance structure and assessing the outcomes achieved. In framing its approach to investment, the Trustee Board focuses on a number of core issues:

a The Scheme has moved to a cashflow matching approach which aims to use cash distributions from investment assets to pay for benefit outgo as it falls due. The Scheme's deficit will be addressed by a combination of contributions from the Sponsor, where necessary, and asset returns in excess of liability growth to continue to improve the funding position such that the Scheme can meet its long-term objective of being fully funded on a secure funding basis and limit the need for further Sponsor support.

b Setting long-term targets is complex – the composition of the liabilities will change over time as its membership matures. Therefore, the Scheme's investment strategy takes account of the amount of investment risk which is necessary and feasible for the Scheme to bear over the lifetime of the Scheme.

c Organisational design is a key issue – the total Scheme is of sufficient scale to be able to derive benefit from the full range of investment opportunities available to UK pension schemes. It is unable to manage all the elements of complex investment ideas as a Board so uses a working group structure and external agents to manage the implementation of the Scheme's funding and investment strategy on its behalf. The Board has authority to delegate certain of its functions to working groups and agents but is responsible for monitoring the work of those delegated groups and agents.

16 Use of time and decision making procedures - the IWG itself faces some constraints due to the complexity of the investment environment and hence structures its meeting plan (both formal meetings and monitoring/project meetings) together with its membership to ensure there is sufficient resource to deal effectively with the desired portfolio structure. This need is not static and is flexed depending on ongoing project work. Urgent decisions are taken between meetings where required.

17 Diversification can lead to additional complexity. Given the relatively high funding level of the Scheme, the Trustee is aware of the need to focus on assets that afford a good level of security and is capable of generating predictable cashflows over a long period of time. Where practicable, the Trustee will seek to rely on contractual cash flows in preference to potentially higher returning assets.

18 Management of risk – The Scheme is exposed to a series of risks. The IWG believes that wherever possible risks should be reduced or limited as quickly as is practicable. Three of the key risks that the Scheme faces are its exposure to changes in the underlying drivers of liability valuation; being inflation, interest rates and longevity. The effect of these three factors can have a profound impact on the value of the pension liabilities that the Scheme is seeking to meet. In addition, through moving to a cashflow driven approach, the Scheme is predominantly invested in Fixed Income type assets. As a result, credit risk is a key risk in the Scheme's investment portfolio. In all cases there are strategies (both through physical assets and derivatives) available to the Trustee Board to limit or minimise the effects of these factors. The Trustee Board has taken advantage of these strategies with respect to interest rates, inflation and credit risk.

19 Longevity risk – The Scheme holds a longevity swap which partially hedges the risk of members living longer than expected. The Scheme entered into a contract with a third party from which the Scheme is committed to pay a pre-defined set of cashflows in exchange for the third party agreeing to meet in full the obligation to a significant proportion of the Scheme's pensioners regardless of the length of time that they live for. Improvements in life expectancy has afforded the Scheme an improved level of certainty over the quantum of its financial obligations. The Trustee continues to consider the remaining longevity risk to the Scheme.

20 Realisation of investments - Liquidity is a key element of portfolio construction. At all points in the cycle the Trustee seeks to maintain sufficient liquidity that it does not become a forced seller of financial assets in distressed market conditions. In addition, the Scheme requires sufficient liquidity to meet member benefits as they fall due. This remains consistent with seeking to exploit the illiquidity premium in certain elements of the total portfolio.

21 Specific portfolio construction beliefs:

a The Scheme focuses on investing in high-quality income generating assets to deliver cash to pay for benefit outgo without excessively disrupting the asset portfolio (to the extent this is possible).

b Developed market currency exposure does not improve risk-adjusted returns, and so is removed if cost effective and practical to do so through currency hedging.

c In asset classes where active management is used to add value over a robust and investable passive exposure, a number of managers with diverse styles are selected to help achieve the performance target, and reduce volatility.

d The Trustee should have a full and detailed knowledge of all asset classes in which the Scheme invests. For the most complex asset classes, implementation may be delegated to a fiduciary.

e Interest rate and inflation risk versus the liabilities should be hedged so as to reduce funding volatility within the constraints imposed by the funding level, leverage and the effect on portfolio return. As the level of risk taken in the Scheme has reduced the amount of interest rate and inflation rate hedging has increased.

f The return on return-seeking assets, while expected to be greater over the long-term than those on liability-matching assets, is likely to be more volatile relative to the liabilities of the Scheme. It is a conscious decision to accept greater volatility in return for the prospect of higher returns.

22 Asset allocation (i.e. the proportion of total assets allocated to various types of assets in a portfolio) is driven by the specific characteristics of the Scheme, in particular its maturity, the pattern of liabilities, the funding of the Scheme, the strength of the employer covenant, and the agreed risk tolerance. The Trustee reviews the asset allocation on a regular basis and at least once every three years to ensure that it is appropriate for the circumstances and objectives of the Scheme. It is considered that the asset allocation policy for the Scheme includes suitable investments, including the Partnership Agreements which give the Scheme certain economic rights to assets ("SDN" and "Gemini") owned by the Sponsor, and that there is a reasonable expectation of meeting the objectives.

Other Investment Policies

23 The Trustee, after obtaining (and, at most, annually reconfirming) appropriate investment advice, has appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.

24 The Trustee, and investment managers who have delegated discretion, exercise their powers in a manner calculated to ensure the security, liquidity and profitability of the Scheme. The Trustee invests the assets in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme. The Trustee ensures the majority of the assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level.

25 The Scheme provides a facility for members to pay AVCs into the Scheme to enhance their benefits at retirement (on a money purchase rather than added years basis) and these are invested separately from the other assets of the Scheme. The DC Committee monitors AVCs for the Scheme and, in this regard, receives appropriate investment advice.

26 The Trustee defines "Sustainable and Responsible Investment" as investing to meet present and future needs through management of long-term risks and opportunities, which involves considering ESG factors. ESG factors are the interaction of the Scheme's investments with the physical environment (environmental), wider society and economies (social), and the governance structures of the organisations and markets we invest in, as well as of our agents (governance). The Scheme's long-term investment horizon gives us both a responsibility and an advantage which we believe will produce better investment outcomes. Considering these factors will help the Scheme and its agents (including the Scheme's advisors and investment managers) make more informed and better investment decisions. The Trustee has considered how sustainability and environmental, social and corporate governance (ESG) factors should be taken into account in the selection, retention and realisation of long-term investments. This includes climate change which the Trustee recognises can present potentially material risks to portfolio but could also potentially present new investment opportunities. The view is that these factors form one of the elements of the investment decision-making process and, therefore, should largely be delegated to managers to consider as part of their overall management of this process. However exercising ownership rights, collaborative engagement with its agents and portfolio companies (with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings), as well as active management of physical assets can improve long-term risk adjusted returns. As a result, the Trustee expects its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process and will review managers in this regard.

27 The Trustee Board's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The IWG periodically reviews reports from investment managers to ensure policies relating to suitability and responsible investments are being met including requirements of the Bribery Act 2010.

28 The Trustee does not, in the normal course of events, monitor or engage directly with issuers or other holders of debt or equity. In line with the investment managers' general policies on stewardship (which are provided to the Trustee from time to time), the Trustee expects the investment managers to exercise ownership rights and undertake monitoring and engagement, considering the long-term financial interests of the beneficiaries.

29 In 2023 the Trustee discussed and agreed a series of priority areas for stewardship which it believes are important, as poor policies and/or practices in these areas are likely to materially impact on the value of investee companies. These priority areas are:

- Climate Change
- Diversity & Inclusion

Further details of the actions carried out on the Trustee's behalf are outlined in the Scheme's implementation statement. The Trustee will monitor how the Scheme's investment managers have voted and engaged with companies on matters covered by the priority areas noted above. These priority areas will be reviewed annually.

30 The Trustee's policy at this time is not to take into account non-financial matters in the selection, retention and realisation of investments.

31 The Scheme uses many different managers and mandates to implement its investment policies. The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

32 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

33 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team. For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. In some asset classes, the Trustee invests in funds that have a fixed term where this is appropriate and the fund fits into the Trustee's policy and objectives.

34 The Trustee has agreed fees with each manager based on the value of assets in their respective portfolios. These fees are consistent with each manager's stated fee scale and negotiated where possible. Details of the fee structures are included in the Investment Management Agreements. Regular assessment of fees is undertaken and negotiation where appropriate.

35 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The Trustee reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Risk Management

36 The Trustee Board recognises a number of risks involved in the investment of the Scheme's assets:

Solvency risk and mismatching risk:

- Is measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies.
- Is managed through assessing the progress of the actual growth of the assets relative to liabilities under current and alternative investment policies.

Manager risk:

- Is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy.
- Is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process. In addition, the Trustee considers a number of 'shock' tests to monitor collateral implication for the liability hedging and currency hedging derivatives.

Liquidity risk:

- Is measured by the level of cashflow required by the Scheme over a specified period.
- Is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Credit risk:

- In a cashflow matched portfolio this becomes a key consideration. At a manager level this will be addressed by focusing on credit quality and concentration to individual names and sectors.
- At a portfolio level the Trustee Board will monitor both the quality of assets held and the exposure of the portfolio to particular sectors and geographies.

Currency risk:

- Measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.
- Is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas currency exposure for those overseas currencies that can be hedged efficiently.

Interest rate and inflation risk:

- Is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- Is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Scheme's assets to better-match movements in the value of the liabilities due to inflation and interest rates.

Custodial risk:

- Is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.
- Is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- Is mitigated by work being undertaken with regard to the appropriate segregation of accounts at the sub custodian level in key markets – UK, US and Euroclear.

Political risk:

- Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- Is managed by regular reviews of the actual asset allocation relative to strategic asset allocation and through regular assessment of the levels of diversification within the existing strategic allocation.

Sponsor risk:

- Is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
- Is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

Derivatives risk:

- Collateral adequacy risk – the Scheme is invested in leveraged LDI arrangements to provide protection against adverse changes in interest rates and inflation expectations. Collateral adequacy is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. This risk is mitigated through regular monitoring of the amount of collateral in the LDI portfolio and agreed notification thresholds for the LDI manager to notify the Trustee if collateral runs low. Furthermore, if collateral falls beneath this threshold, there is an automated process to sell other assets to replenish the collateral.
- Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
- Financing risk – this risk is mitigated through the diversification of financing sources for the Scheme's derivatives exposures. It is managed on a delegated basis by BlackRock.
- Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee Board for the backing assets and the investment managers' asset management capabilities.
- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee Board take appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- The Trustee Board is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisors, the Trustee Board monitor these positions on a regular basis.

Signed:

Name: Stephen Yandle

Date: 18 April 2024

Authorised for and on behalf of the Trustee Board of the Scheme