Pension Scheme Limited

Statement of Investment Principles

ITV Pension Scheme (Section C)

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. The Scheme comprises two Sections: A and C. Each Section has its own SIP. Certain principles are common to all of the Sections but areas specific to each Section are clearly highlighted.

3 This SIP relates to the Defined Benefit Section C only; there is a separate SIP for the Defined Benefit Section A.

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). The SIP also reflects the Trustee's response to the Myners voluntary code of investment principles for defined benefit schemes.

5 The Trustee Board will review this SIP at least every three years to coincide with the triennial valuation process, or sooner if there are significant changes in investment policy or there is a material change to the Section'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 (Willis Towers Watson) and consulted with the Scheme's sponsor ITV Services Limited as Principal Employer. The ultimate power and responsibility for deciding investment policy, however, 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 Sections 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 initially held three separate sections: Section A, Section B and Section C. Following the bulk transfer of all DB assets and liabilities from Section B to Section C, the Scheme now holds only two sections: Section A and Section C.

9 The Trustee Board purchased an insurance policy with Pension Insurance Corporation "PIC" to secure all the members' benefits associated with Section C. Such a policy is consistent with the Sections' long-term objective to reduce the volatility of the scheme's funding position and provide greater security for payment of members' benefits. The insurance policy is an asset of the Scheme and the pension liability remains with the Scheme.

10 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 Committee (IC), a sub-group of the Trustee Board, to oversee the investment portfolio and handle certain investment matters.

11 The remit of the IC is defined within formal Terms of Reference. The Trustee Board reviews these Terms of Reference periodically.

The IC's responsibilities as set out in the Terms of Reference include:

- agreeing with the Board:

  a) an appropriate approach to Section A's investment strategy including the target levels of risk and return consistent with the Long-Term Funding and Investment Strategy set by the Board and implemented through the strategic asset allocation;

  b) an appropriate model for governance of investment activity and any modifications to such governance;

  c) a core set of investment principles that are operated by the IC.

- preparation of this SIP for approval by the Trustee Board and proposing updates to the SIP as and when required.

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

Investment strategy

13 The Trustee Board together with the IC 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 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 Scheme has entered into a buy-in agreement with the Pension Insurance Corporation "PIC" to secure all member benefits associated with Section C.

b The Section will be predominantly invested in the buy-in policy and in its own right this is not a diversified investment portfolio. However, the regulations state that qualifying insurance policies shall be treated as satisfying the requirement for proper diversification for that part of the portfolio.

14 Management of risk – The Scheme is exposed to a series of risks. The IC 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 and is mitigated through the purchase of an insurance policy to secure the member benefits associated with the Section.

Other Investment Policies

15 The IC, 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. Where appropriate investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.

16 The IC, 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 IC invests the assets not captured by the annuity policy in a manner it believes to be appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme. The IC ensures the majority of the assets are invested in regulated markets and that any allocation to unregulated markets is maintained at a prudent level.

17 We define "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 Section's advisors and investment managers) make more informed and better investment decisions. The IC 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. The view is that these factors form one of the elements of the investment decision-making process and, therefore, should largely be

delegated to investment 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.

18 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 IC 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.

19 The Scheme's assets are held in an annuity policy that covers all of Section C's members and therefore has limited scope to implement its investment policies.

20 Under the annuity policy consideration of the sustainable investment/ESG characteristics of the annuity portfolio and engagement activities is fully transferred to the annuity provider.

21 The Trustee's agreement with the annuity provider is to provide cashflows to cover the members benefits, the appointment is not expected to be terminated as long as the provider remains solvent.

22 The cost of the annuity is priced into the initial transaction; fees and fee structures do not therefore need to be assessed and renegotiated.

23 The nature of the annuity pricing means the Scheme does not incur costs from turnover within the annuity portfolio; these fees do not therefore need to be assessed.

Risk Management

24 The Trustee Board recognises a number of risks involved in the investment of the Scheme's assets, in practice most of these risks are now mitigated by the investment in the annuity policy which covers all of Section C's members:

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.

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.

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 investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

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.

- Section C has a low reliance on the sponsor through the purchase of an insurance policy.

Legal and operation risk:

- is mitigated by taking 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.

Liability risk:

- is mitigated through the purchase of an insurance contract with PIC to secure the member benefits associated with Section C. PIC is authorised to write long-term insurance business by the Prudential Regulation Authority (“PRA”) and regulated by the PRA and the Financial Conduct Authority (“FCA”). The PRA requires annuity providers to hold capital over and above the assets required to pay out policyholder benefits, as an additional safeguard for policyholders.

Signed:

Name: Stephen Yandle

Date: 28 September 2020

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