

Nortel Networks UK Pension Plan

Statement of Investment Principles September 2009

1. Introduction

- 1.1 The Trustee of the Nortel Networks UK Pension Plan ("the Plan") has 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 Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("the Investment Consultant").
- 1.2 Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day-to-day management of the assets, which is delegated to professional investment management.
- 1.3 This Statement sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Policy Implementation Document ("IPID"), which should be read in conjunction with this Statement.
- 1.4 Nortel Networks UK Ltd (the "Principal Employer") entered into administration on 14 January 2009. The Trustee has consulted the Principal Employer regarding this Statement. The Pension Protection Fund (the "PPF") confirmed on 30th March 2009, with an effective date of 14 January 2009, that the Plan was in assessment for the purposes of determining its eligibility to enter the PPF. While this assessment takes place, the Trustee retains day-to-day responsibility for the Plan. During this period the Trustee is sharing details of investment strategy changes with both the Principal Employer and representatives of the PPF.

2. Investment Objectives

- 2.1 The Trustee reviewed its investment objectives in consultation with the PPF following determination that the Plan would enter the PPF assessment period. As the Plan no longer had the financial support of the Principal Employer the Trustee decided to significantly reduce the level of investment risk within the Plan to a level broadly consistent with the PPF investment strategy as defined in the PPF's Statement of Investment Principles dated July 2008. In addition, the Trustee decided that the PPF level of benefits rather than the normal Plan benefits would form the basis of investment analysis. Further details on the revised investment strategy are set out in Section 4.

3. Risk Management and Measurement

3.1 There are various risks to which any pension Plan is exposed. The Trustee's policy on risk management is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Plan's assets and its liabilities.
- The Trustee recognises that whilst increasing risk may increase potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities, as well as producing more short-term volatility in the Plan's funding position. Following the insolvency of the Principal Employer and the entry of the Plan into assessment for transition into the PPF, the Trustee's focus has changed away from longer term growth issues towards protecting against short-term volatility.
- The Trustee will keep this issue under review as the likelihood of entry to the PPF becomes clearer over time.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. This restriction does not apply to investment in UK Government debt.
- The Trustee recognises that the use of active investment managers involves the risk that the day-to-day management of the assets will not achieve the rate of investment return within each asset class expected by the Trustee.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The managers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent.

3.2 Should there be a material change in the Plan's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

4. Strategic Asset Allocation

4.1 As mentioned in Section 2, the Trustee decided to reduce the level of investment risk within the Plan to a level broadly consistent with the PPF's investment strategy. The PPF's Statement of Investment Principles dated July 2008 states that the PPF's risk budget is 4% p.a. at the total fund level. This risk budget is the maximum ex-ante standard deviation of the difference between the asset return and the return on the "liability benchmark". This liability benchmark is the notional portfolio of assets that exactly matches the expected liability cashflows. Based on advice from Mercer this risk level was

translated to the asset strategy set out in the following table. The Trustee has decided to implement the revised investment strategy via a phased transition from the previous investment strategy over the second half of 2009.

Asset Class	%
UK equities	10
Overseas equities	15
Corporate bonds	20
Government bonds	10
Liability hedging mandate	45
Total	100

- 4.2 The liability hedging mandate is designed to reduce the mismatch between the sensitivity of the assets and the liabilities to changes in interest rates and inflation rates. To achieve this, the liability hedging mandate invests in instruments with interest rate and inflation sensitivity such as government bonds and interest rate and inflation swaps (derivative instruments). The liability hedging mandate is designed to match 66% of the total interest rate sensitivity and 100% of the total inflation sensitivity within the Plan at the PPF level of benefits.
- 4.3 The reduction in equity weighting is designed to significantly reduce the Plan's exposure to short-term falls in equity markets.
- 4.4 The currency risk associated with the Plan's overseas equity holdings and non-Sterling denominated corporate bonds is hedged to reduce the impact of currency movements on the funding position of the Plan. Approximately, 75% of the Plan's overseas equity currency risk and approximately 100% of the non-Sterling corporate bond currency risk is hedged back to Sterling.
- 5. Day-to-Day Management of the Assets**
- 5.1 The Trustee delegates the day to day management of the assets to a number of investment managers.
- 5.2 The Trustee regularly reviews the continuing suitability of the Plan's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted as set out in Section 4.
- 5.3 Details of the appointed managers can be found in the IPID.
- 6. Additional Assets**
- 6.1 Prior to the insolvency of the Principal Employer, the Trustee made available to Plan members a choice of external Additional Voluntary Contribution ("AVC") investment arrangements. Further information in respect of members' Additional Voluntary Contributions ("AVCs") is set out in the IPID.

7. Realisation of Investments

- 7.1 The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.
- 7.2 The Trustee monitors the allocation between the appointed managers and between asset classes and rebalances the portfolio as set out in the IPID.

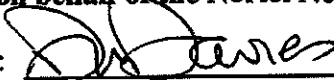
8. Socially Responsible Investment and Corporate Governance

- 8.1 The Trustee expects their managers to take account of socially responsible considerations in so far as they believe such considerations will benefit performance or reduce risk. For those assets of the Plan invested in pooled arrangements, the Trustee accepts that the assets are subject to the investment managers' own policies on social, environmental and ethical investment. The investment managers will from time to time report on their policies on socially responsible investment to the Trustee.
- 8.2 The Managers exercise rights (including voting rights) attaching to investments within the Plan where they deem it appropriate to protect the Plan's interests as holders of such investments.

9. Review of this Statement

- 9.1 The Trustee will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Scheme and its liabilities, finances and attitude to risk of the Trustee. Any such review will be based on written expert investment advice.

Signed on behalf of the Nortel Networks UK Pension Plan Trustee Limited

Signed:  Date: 22 September 2009

Name: _____

Signed:  Date: 22 September 2009

Name: _____