

Nortel Networks UK Pension Plan

Investment Policy Implementation Document

September 2016

1. Introduction

- 1.1 This Investment Policy Implementation Document (the "IPID") has been prepared by the Trustee of the Nortel Networks UK Pension Plan (the "Plan"). The IPID sets out the detail of the Plan's investment arrangements, based on the principles documented in the Statement of Investment Principles (the "Statement").

2. Plan Governance

- 2.1 The Trustee has the responsibility for appointing investment managers ("Investment Managers") from time to time to manage the assets of the Plan. The Investment Managers currently appointed are detailed in Section 4.
- 2.2 The Trustee has a signed and dated Investment Management Agreement ("IMA") or equivalent document with each of the Managers which delineates the terms and conditions by and under which the respective portfolios shall be managed and reported and which does not conflict with this Statement. The Managers have day-to-day responsibility for managing the assets of the Plan and are all regulated by the Financial Conduct Authority ("FCA").
- 2.3 The Trustee has the responsibility for appointing one or more custodians ("Custodian(s)") from time to time to act as custodian(s) and settlement agent(s) for the Managers of the Plan's assets as appropriate. The Trustee has a signed and dated Custodian Agreement and a Service Level Agreement ("SLA") with the current Custodian which delineates the terms and conditions by and under which the Custodian shall provide custodial services and reports.
- 2.4 The Trustee has created an Investment Committee (the "Committee") which comprises four directors of the Trustee Company and whose meetings are generally attended by the Investment Consultant.

With effect from December 2008, the Trustee has the power to delegate the ultimate responsibility for Plan investments to appropriate persons under Section 34 of the Pensions Act 1995. This power has been delegated to the Committee and it therefore has the power to make decisions without consulting the Trustee. The implementation of investment strategy and changes to the investment manager structure, including the selection and deselection of investment managers and / or custodians, is the responsibility of the Committee, however the Trustee is liable for the acts and defaults of the Committee.

2.5 The Committee has the following main responsibilities:

- To monitor the Investment Managers' investment performance and processes on a quarterly basis and report on the same to the Trustee Board;
- To make decisions on the selection and deselection of Investment Manager(s) and Custodian(s);
- To review the Plan's investment strategy and investment manager structures from time to time and to agree changes the Committee feels may be appropriate;
- To review and report to the Trustee on a quarterly basis with regard to the investments over which the Trustee has retained control and to obtain the appropriate written advice for consideration by the Trustee in conjunction with the Committee's report; and
- To review the capabilities, procedures and the required due diligence checks on third party service providers (e.g. custodians, transition managers).

2.6 Custodian

2.6.1 The role of a custodian is to ensure the safe keeping of assets and facilitate all transactions entered into by the appointed Investment Managers.

2.6.2 The Plan invests in pooled funds and the safekeeping of the underlying assets is therefore undertaken by parties selected by the fiduciaries of the pooled funds.

2.6.3 The Trustee has appointed State Street Bank and Trust Company as custodian for any segregated investments and to facilitate rebalancing between pooled fund investments, as required.

2.7 Investment Consultant

2.7.1 The day-to-day management of the Plan's assets is delegated to investment managers. All other investment decisions including strategic asset allocation and the selection and monitoring of investment managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed as the Investment Consultant.

3. Managing Strategic Risk

3.1 In due course, following the sale of the Nortel corporate estate and the conclusion of the legal insolvency proceedings, it is expected that the Plan will receive an inflow of cash. Depending on the size of the recovery payment received, the Trustee will either be able to secure a buy-out of the Plan's assets and liabilities, or the Plan will go into the Pension Protection Fund ("the PPF").

- 3.2 In the interim, while the Plan is in the PPF assessment period, the Trustee will consult with the PPF on any changes in investment strategy and will seek to:
- Set the Plan's investment strategy in light of an anticipated recovery payment.
 - Limit the Plan's investments in illiquid assets, in recognition of the need to hold assets that will be either readily realisable or transferable to a bulk annuity provider in the event that the Trustee moves to buy out the Plan's liabilities. The Trustee has therefore decided not to allocate any assets to equity markets or to 'alternative' asset classes.
 - Allow a wide tolerance range around the major asset classes in the Plan. This allows the Trustee to apply all assets towards hedging the liabilities if required.
- 3.3 In light of the above points, the Trustee has adopted the strategic asset allocation set out in the table below:

Asset Class	Strategic Allocation (%)*	Tolerance Ranges (%)
Liability hedging mandate	70	60 - 100
Corporate bonds	30	0 - 40

* Based on approximate asset allocation as at 31 July 2016

- 3.4 As of January 2010, the Fund's overall performance is no longer measured against a strategic benchmark. There is also no formal rebalancing between the broad asset classes set out in the table above, although rebalancing is carried out within the asset portfolios, as appropriate. 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). Given the anticipated recovery payment, the liability hedging mandate has been designed to match c. 118% of the total interest rate sensitivity and c. 118% of the total inflation sensitivity within the Plan at the PPF level of benefits.
- 3.5 It is expected that a portion of the anticipated recovery payment will be denominated in US dollars. In order to protect the value of this cash in sterling terms, and hence protect the Plan's future funding position, a currency hedging mandate has been put into place in order to reduce the foreign exchange risk associated with this inflow. The currency hedge is implemented as an overlay and so there is no strategic benchmark associated with this mandate. Any cash flows arising from gains or losses on the currency hedge are applied to the LDI portfolio.

4. Managing the Investment Managers

4.1 The Trustee has appointed the Investment Managers as set out below to manage the defined benefit assets:

4.1.1	Investment Manager:	BlackRock
	Asset Class:	Liability hedging mandate
	Investment Type:	Pooled (bespoke)
	Mandate Benchmark:	Liability Benchmark
	Performance Objective:	Match changes in Liability Benchmark. The liability hedging mandate is designed to match c. 118% of the total interest rate sensitivity and c. 118% of the total inflation sensitivity within the Plan at the PPF level of benefits.
	Performance Review Period:	n/a
	Allocation*:	70%
4.1.2	Investment Manager:	Legal and General Investment Management (“LGIM”)
	Asset Class:	Sterling corporate bonds
	Investment Type:	Pooled
	Mandate Benchmark:	100% iBoxx £ Non-Gilts All Stocks Index
	Performance Objective:	To hold a portfolio of securities designed to match the return of the mandate benchmark within a specified tolerance.
	Performance Review Period:	n/a
	Allocation*:	30%
4.1.1	Investment Manager:	BlackRock
	Asset Class:	Currency hedging mandate
	Investment Type:	Segregated
	Mandate Benchmark:	n/a
	Performance Objective:	To reduce the currency risk associated with a future inflow of US dollar denominated cash.
	Performance Review Period:	n/a
	Allocation*:	0%

* Approximate allocations shown are as at 31 July 2016 and are subject to change with market movements as rebalancing has been suspended.

4.2 The Investment Managers provide quarterly investment reports to the Trustee including:

- A valuation of all investments held for the Plan at prevailing market value on the last day of the quarter;

- Records of all transactions together with a cash reconciliation; and
- A review of recent actions undertaken on behalf of the Plan together with a summary of the Investment Manager's current stated policy.

5. Cash Flow Management and Rebalancing

- 5.1 Income is sourced from the Plan's corporate bond and LDI portfolios and assets are further disinvested on a monthly basis in order to meet the Plan's cash flow requirements. The current disinvestment policy is to source all of the required net cash flow (in excess of any income generated) from the LDI portfolio. In order to maintain the target inflation and interest rate hedge ratios, disinvestments from the LDI portfolio are implemented by selling physical (gilt) assets and replacing the exposure through the use of synthetic (derivative) instruments. The Trustee reviews the Plan's disinvestment policy on a regular basis to decide from where to raise the necessary cash.
- 5.2 The Trustee does not actively rebalance the Plan's broad asset allocation. The maturity allocations within the LDI portfolio are rebalanced by the investment manager in accordance with the guidelines set out in their IMA.

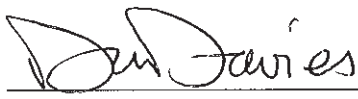
6. AVC Sections

- 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.
- 6.2 The Trustee will review the Providers for continued suitability at least every three years and more frequently as warranted. Current providers include Friends Life (formerly Winterthur Life), Equitable Life, Phoenix Life (formerly London Life) and MGM.

7. Fee Structures

- 7.1 Information on the Investment Managers, Custodian and Investment Consultant fee schedules are set out in the Investment Policy Implementation Document Fee Appendix.

Signed on behalf of the Nortel Networks UK Pension Trust Limited

Signed:  Date: 12/09/16

Name: D W DAVIES

Signed: _____



Date: _____

12/09/16

Name: _____

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