

Nortel Networks UK Pension Plan

Statement of Investment Principles

December 2017

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”), as revised from time to time, 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 managers.
- 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 Pension Protection Fund (the “PPF”) confirmed on 30 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 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 has the financial support of the Principal Employer, the Trustee has decided to significantly reduce the level of investment risk within the Plan, and to maintain the type of assets and level of liquidity that would be appropriate in the event of securing a buy-out. In addition, the Trustee has decided that the PPF level of benefits rather than the normal Plan benefits would form the basis of the investment analysis.
- 2.2 Details of the Trustee’s 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 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. Specifically, the Trustee aims to limit the potential for a significant fall in the Plan's funding level.
 - The Trustee will keep this issue under review as the likelihood of entry to the PPF, or otherwise, 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 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 During 2017, the Plan began to receive its first recovery payments from the sale of Nortel's corporate estate. Depending on the size of the total recovery payments 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").
- 4.2 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 volatile and/or 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, specifically permitting the allocation to bonds to increase to 100%. The wide tolerances are designed to allow the Trustee to apply all assets towards hedging the liabilities, if required.

4.3 In light of the above points and the receipt of the initial recovery payments, the Trustee has adopted the asset allocation set out in the table below.

Asset Class	Asset Allocation (%) [*]
Liability hedging mandate ^{**}	55.0
Corporate bonds	25.0
Cash / liquidity funds	20.0

^{*} Based on approximate asset allocation as at 17 November 2017.

^{**} Includes a c.5% target allocation to cash for collateral purposes.

4.4 The asset allocation is expected to change as the Plan receives further recovery payments from the sale of the corporate estate.

4.5 Specific details of the investments are provided in the Plan's Investment Policy Implementation Document (IPID).

4.6 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 asset classes set out in the table above, although rebalancing is carried out within the asset portfolios, as appropriate.

4.7 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 payments, the liability hedging mandate has been designed so that, together with the corporate bond assets, it matches c. 120% of the total interest rate sensitivity and c. 120% of the total inflation sensitivity within the Plan at the PPF level of benefits.

4.8 It is expected that a portion of the outstanding recovery payments 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. It is expected that, as the Plan receives its USD denominated recovery payments and converts them to Sterling, the Trustee will unwind the currency hedging mandate commensurately.

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. Any changes would be made with the aim of ensuring that 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 Details of the Trustee's rebalancing policy are set out in the IPID.

8. **Socially Responsible Investment and Corporate Governance**

- 8.1 The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.
- 8.2 The Trustee believes that environmental social and corporate governance ("ESG") can affect the performance of investment portfolios and should therefore be considered as part of the Plan's investment process.
- 8.3 The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Plan's investments, taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.
- 8.4 The Trustee encourages the managers who are registered with the FCA to comply with the UK Stewardship Code.
- 8.5 The Plan's managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy including escalation procedures to protect investment value.

- 8.6 For segregated or bespoke pooled fund mandates, the Trustee will expect the managers to have a policy on how they take social and environmental issues into account when investing on behalf of the Plan. In particular, where the manager believes that these issues will impact on performance or risk, the manager will be expected to take them into account in their decision making. It will however be made clear to the managers that any decisions taken by them should be in the best long terms financial interest of the Plan and its members. For multi-client pooled fund mandates, the Trustee will take into account the policies of the managers at the time of selection.
- 8.7 For segregated or bespoke pooled fund mandates, the Trustee will require the managers to have a formal policy on corporate governance which highlights any areas where their policy does not conform to best practice and the reason why. For multi-client pooled fund mandates, the Trustee will take into account the policies of the managers at the time of selection.
- 8.8 The Trustee will monitor its FCA registered managers' adherence to the UK Stewardship Code on a regular basis.

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 Plan 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 Trust Limited

Signed:  Date: 11 December 2017

Name: B.T. IZZOARD

Signed:  Date: 11 December 2017

Name: Bob Higgins (for the Trustees)