

Nortel Networks UK Pension Plan

Statement of Investment Principles

September 2020

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”).
- 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.
- 1.5 In October 2018, the Plan completed a bulk annuity transaction to enable the Plan to exit the PPF, as a precursor to the eventual winding-up of the Plan. Following the transaction, Legal and General Assurance Society (“LGAS”) took over responsibility for the majority of the Plan’s assets and liabilities via the bulk annuity contract. The Trustee retains day-to-day responsibility for the residual assets and future recovery payments that will be used to enhance the level of members’ future benefits.

2. Investment Objectives

- 2.1 The Trustee’s primary objective is to follow a low-risk strategy and to maintain the type of assets that would move approximately in line with annuity prices in order to enhance members’ future benefits.
- 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:

- Following the Plan's bulk annuity transaction and exit from the PPF, the primary risk upon which the Trustee focuses is that arising through a mismatch between movements in the value of the Plan's residual assets and annuity prices.
- The Trustee recognises that, whilst increasing risk may increase the potential to enhance the level of members' benefits, it may also result in smaller enhancements than otherwise.
- The Trustee recognises the risks that may arise from lack of liquidity, such as the inability to meet Plan expenses or collateral calls from the Liability Driven Investment ("LDI") portfolio. The Trustee aims to ensure the asset allocation policy in place results in a portfolio with a sufficient level of liquidity to meet these needs.
- 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.

4. Strategic Asset Allocation

- 4.1 In October 2018, the Plan completed a bulk annuity transaction and the majority of the Plan's assets and liabilities were transferred to LGAS. The residual assets held by the Plan are invested in a pooled liability hedging mandate and in liquidity funds as shown in the table below.

Asset Class	Asset Allocation (%)*
Liability hedging mandate	90.0
Cash / liquidity funds	10.0

* Based on approximate asset allocation as at 30 June 2020.

- 4.2 The Plan continues to receive recovery payments from the sale of Nortel's corporate estate. Members' benefits will be enhanced using the residual assets and future recoveries. The level of benefit enhancement is dependent on the size of the recovery payments yet to be received.
- 4.3 Until the final recovery payment is received, the Trustee will seek to:
- Set the Plan's investment strategy in light of anticipated recovery payments;
 - Limit the Plan's investments in volatile and/or illiquid assets, in recognition of the need to hold assets that will be readily realisable or transferable to LGAS in the event of enhancing insured member benefits;

