Scotiabank Pension Scheme (United Kingdom And Channel Islands)

Statement of Investment Principles - June 2025

1. Introduction

The SPS UK Trustee Limited as Trustee to the Scotiabank Pension Scheme (United Kingdom and Channel Islands) (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investment policy. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard. A copy of the Scheme's Trust Deed is available for inspection upon request.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the Scheme's sponsoring company, The Bank of Nova Scotia (the "Bank"), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

The stewardship of the Scheme's investment arrangements may be divided into three main areas of responsibility. The first (Sections 3, 4 and 5) deals with the strategic management of the Scheme's assets, which is driven by its investment objectives. The second area (Section 6) is the day-to-day management of those assets. The third part is the ongoing monitoring of the performance of the appointed managers against pre-determined benchmarks (further detail of which is included in the Statement of Investment Arrangements (SIA).

The Trustee has appointed Mercer to act as the Scheme's fiduciary investment manager. In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Bank, is necessary to improve the Scheme's current and ongoing solvency funding positions. The Trustee recognises that equity (and other growth assets) investment will bring increased volatility to the funding level, but in the expectation of improvements in the Scheme's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee's primary objective is to meet member benefit payments as they fall due. In meeting this objective, the Trustee's further objectives are to:

- By means of an agreed combination of investment return and contributions from the Bank, move the Scheme to a position of being fully funded by 2030 – 2035 on a de-risked funding basis (gilts + 0.25% p.a.). This is a stronger objective than the previous target of fully funded on gilts + 0.50% p.a. by October 2025. The timescale for reaching this target was reviewed at the March 2025 investment strategy review and will continue to be reviewed on an regular basis.

- In doing so, to consider opportunities to reduce the degree of risk in the Scheme's investment arrangements, thereby helping to protect the Scheme's improving funding position.

- To take on investment risk in a controlled way. The Trustee believes that, over the long term, excess return will be generated through investing in equities, other return enhancing asset classes such as corporate bonds and through the use of active management where appropriate. The Trustee recognises that in adopting this approach, the Scheme is exposed to equity market and other risks and this may mean that, in the short term, the return target may either not be achieved or becomes a very easy target (i.e. the short term funding position will be volatile).

The Trustee recognises this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

The Trustee has agreed that the Scheme should move progressively towards a target of an entirely bond-based investment strategy ("Matching Portfolio") as its funding level increases. The Trustee will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations (such as member views and investment restrictions) are discussed in Section 10.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities and the Bank's ability to support this mismatch risk.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more volatility in the Scheme's funding position.

- To control the risk outlined above, the Trustee, having taken advice, sets the split between the Scheme's Growth and Matching Portfolios such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. The overall expected return of the Scheme's assets based on the current investment strategy was calculated to be gilts + 0.9% p.a. (net of all fees) as at 31 March 2025. This analysis is updated on an annual basis.

- Whilst moving towards the target funding level, the Trustee recognises that even if the Scheme is invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification and performance of the Trustee's portfolio. Investment exposure is obtained via pooled vehicles.

- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying investment managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day active management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes the Trustee believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk, and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.

- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Scheme's assets are managed by appropriate underlying asset managers and expects Mercer to make multiple manager appointments within most asset classes.

- The Trustee invests in leveraged LDI funds to maintain a high level of liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with nominal and real gilt yield (i.e. interest rate and inflation) changes. The Trustee reviews the Matching Portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and broader governance.

- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure) such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee would ensure that the assets of the Scheme are predominantly invested in regulated markets.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- A number of the delegated funds have the flexibility to use leverage. Leverage, or borrowing, is permitted under the Trust Deed and Rules. The Trustee recognises that the use of leverage brings with it various risks, such as counterparty risk. These risks are mitigated both through the investment manager selection process and investment review of investment manager appointments. In addition, the Trustee considers the degree of overall leverage of the Scheme's assets on at least a quarterly basis, as appropriate.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Trustee recognises that environment, social and corporate governance concerns, including climate change, have a financially material impact on returns. Section 10 sets out how these risks are managed.

- Responsibility for the safe custody of the Scheme's assets is delegated to Mercer who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as the custodian of the assets invested in their vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly with Mercer and receives regular reports from Mercer on the underlying investment managers. These reports include an analysis of the overall level of risk and return, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.

- The Trustee monitors the Bank's covenant on a regular basis and continues to have an ongoing dialogue with the Bank as to regards of the Bank's ability and willingness to fund the Scheme.

- Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current investment strategy remains appropriate.

The Trustee will monitor these risks as part of the ongoing monitoring of the Scheme's investment strategy. In addition, the Trustee will engage in regular dialogue with the Bank to ensure that all parties are aware of the risks that are being run and are comfortable with these.

5. Investment Strategy

The Trustee, with advice from the Scheme's investment consultant (Mercer) and Scheme Actuary, reviewed the Scheme's investment strategy in 2018, and have done so every year since then, most recently in 2025. Each review considers the Trustee's investment objectives, its ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including the merits of de-risking strategies as may be appropriate).

Following the latest review in 2025, the key decision was to maintain a fixed target Growth Portfolio allocation and to remove the de-risking triggers the Scheme had previously put in place. This growth allocation target remains under review as the Scheme progresses towards the Trustee's and Bank's ultimate objective.

The overall investment strategy targets the following practices:

- To hold sufficient growth assets to target full funding on a gilts +0.25% basis by 2030-35;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;

Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustee on its rebalancing activities.

The first annual review took place in the first quarter of 2017, where the Trustee allowed for the change in contributions that had been agreed as a result of the closure of the Scheme to future accrual. During the 2018 review, the Trustee allowed for the change in contributions that had been agreed as a result of the 2017 Actuarial Valuation. Since the strategy has been put in place, changes in contributions have been reflected in the revised funding level bands such that the Trustee's and Bank's objectives could still be achieved whilst minimising investment risk. Further detail is set out in the SIA.

6. Day–to-Day Management of the Assets

The Trustee has delegated day-to-day management of the assets to Mercer, who in turn delegates responsibility for the investment of the assets to a range of underlying specialist investment managers. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints.

The Trustee is satisfied that Mercer has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Scheme's investments.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

7. Realisation of Investments

The Trustee on behalf of the Scheme holds shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

8. **Cash Flow and Cash Flow Management**

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

9. **Rebalancing**

As noted, responsibility for monitoring the Scheme's asset allocation and any rebalancing activity is underaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustee and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

10. **ESG, Stewardship, and Climate Change**

The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE.

Mercer's Investment Philosophy uses a holistic approach, considering market-wide and systemic risks and incorporating sustainability considerations objectives, governance, rewarded risk and value maximization considerations. Mercer's full investment philosophy is also available here: Investment philosophy. Additionally, Mercer's Sustainability Policy sets out the key principles and guidelines used by Mercer to consider and respond to sustainability risks and opportunities in investment process decision-making.

Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Mercer's Climate-Related Financial Disclosures Report report highlights Mercer's approach in more detail. Disclosure consistent with the TCFD recommendations is also encouraged for appointed managers.

Mercer screens and monitors listed portfolios for high-severity incidents as flagged according to the UN Global Compact ("UNGC") Principles that relate to human rights, labour, environment, and corruption issues, as identified by our appointed external research provider and will prioritise engagement with the managers owning those companies based on an internally developed framework.

Mercer may also elect to participate, as appropriate, in collaborative industry engagement initiatives related to engagement priorities, or other topics that are considered aligned with the best interests of the Scheme.

Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustee has not set any investment restrictions in relation to particular Mercer Funds, but may consider this in future.

11. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 5, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 4. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception periods. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and is not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the investment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the investment strategy, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

12. Additional Assets

The Trustee invests members' additional voluntary contributions with Aegon UK, Utmost Life and Pensions and Prudential Assurance Company Limited.

With the assistance of the Scheme's consultants, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustee, given its understanding of the needs of the members.

13. **Conflicts of Interest**

The Trustee maintains a separate Conflicts of Interest policy, for identifying, managing and monitoring any conflicts of interest which may arise in relation to the Scheme. Each Trustee will notify the Chairman of the Trustee of any conflict of interest in respect of their Trustee duties as soon as is practicable after becoming aware of the potential conflict. Similarly, the Investment Consultant will notify the Chairman of the Trustee of any conflict of interest in respect of their advice to the Trustee as soon as is practicable after becoming aware of the potential conflict. Where a conflict does occur that individual will not take part in the discussion on that particular matter.

14. **Review Of This Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

This Statement has been reviewed and approved by the SPS UK Trustee Limited as Trustee to the Scotiabank Pension Scheme (United Kingdom and Channel Islands).