IRISH LEAGUE OF CREDIT UNIONS NORTHERN IRELAND PENSION SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

1. Background

The Trustees of the Irish League of Credit Unions Northern Ireland Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions (Northern Ireland) Order 1995 ("the Act"), as amended. As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Deloitte Total Reward and Benefits ("DTRB"). DTRB became the Trustees' investment advisors during 2020. The Trustees in preparing this Statement have also consulted the sponsoring Employer, the Irish League of Credit Unions.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives as set out in Section 2 below.

The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment management organisations and described in Section 3.

2. Investment objectives and risk

2.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have considered their objectives and adopted the following:

- To achieve full funding on a technical provisions basis in the most efficient manner possible;
- To pay due regard to the amount and variation of the Employer's contribution payments; and
- To minimise the short term impact of downside risk on the Scheme's funding level as far as possible.

The objectives highlight the twin concerns of meeting the obligations of the Scheme while paying due regard to the pension cost for the Employer.

2.2 Risk Measurement and Management

The Trustees recognise that it is necessary to take some degree of investment risk to meet the objectives outlined in section 2.1. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

There are various risks to which any pension scheme is exposed, which the Trustees believe may be financially material to the Scheme. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities.

- The Trustees recognise 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 accruing liabilities as well as producing more volatility in the Scheme's funding position.

- The Trustees' willingness to take on investment risk is dependent on the continuing financial strength of the Employer and its ability to contribute to the Scheme. The strength of the Employer and its perceived commitment to the Scheme is monitored by the Trustees and the level of investment risk taken may increase/decrease should either of these change.

- The Trustees acknowledge that interest rate and inflation expectations in the financial markets have a significant impact on the value of the Scheme's liabilities.

- The Trustees recognise that even if the Scheme's assets are invested in matching assets 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 matching assets and actuarial liabilities.

- The Trustees recognise 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 Trustees believe the asset allocation policy in place results in an adequately diversified portfolio.

- To help the Trustees ensure the continuing suitability of the Scheme's investments, the Trustees currently delegate responsibility for the appointment, removal and ongoing monitoring of the Scheme's investment managers to Mercer Global Investment Europe ("MGIE", or the "Investment Manager") .

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will 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 Trustees will ensure that the assets of the Scheme are predominantly invested on regulated markets.

- Responsibility for the safe custody of the Scheme's assets is delegated to the Investment Manager who has appointed State Street Bank and Trust Company ("State Street") as custodian of the assets invested in their pooled vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

- The terms of the Policy do not allow the investment managers to do anything that could be considered to be speculative or "trading" by the Financial Services and Tax authorities.

2.3 Investment Strategy

- The Trustees undertook a review of the Scheme's investment strategy in 2018 and also in the second quarter of 2020, following the appointment of DTRB as investment advisors. The Trustees expect that over the long term, equities will produce superior returns to bonds but recognise that in the short term equity markets can be volatile. In addition, the Trustees recognise that bonds provide a more predictable income stream and can be used to reduce the level of inflation and interest risk in the Scheme.

- To reduce the level of risk while aiming to achieve a similar level of return, in June 2020 the Trustees agreed to make changes to the portfolio, in particular to increase the level of interest rate and inflation protection. This statement will be updated after these changes have been implemented.

3 . Day to day management of assets

3.1 Main Assets

- The Trustees currently delegate the day to day management of the Scheme's assets to MGIE, who in turn delegates responsibility for the investment of assets to a range of underlying investment managers. MGIE is regulated by the Central Bank of Ireland. MGIE 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.

- If the Trustees believe that the Scheme's Investment Manager is no longer acting in accordance with the Trustees' policies, including those regarding ESG and engagement with investee organisations to assess and improve their medium to long-term financial and non-financial performance, the Trustees will take the following steps:
  - engage with the Investment Manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
  - if necessary, look to appoint a replacement Investment Manager or managers which are more closely aligned with the Trustees' policies and views.
- The Trustees believe that this approach will incentivise the Investment Manager to align its actions with the Trustees' policies.

Asset Class	Target %	Range %	Benchmark Index
EQUITIES	**25.0**	**19.0-31.0**	
Mercer Passive Global Equity CCF*	10.0	+/-2.0	MSCI World (NDR) Index
Mercer Passive Global Equity CCF (Hedged)*	10.0	+/-2.0	MSCI World (NDR) Hedged
Mercer Low Volatility Equity Fund	2.5	+/-1.0	1/3 MSCI World (NDR) 1/3 MSCI World Minimum Volatility (NDR) 1/3 MSCI World Quality (NDR)
MGI Emerging Markets Equity Fund	2.5	+/-1.0	MSCI Emerging Markets (NDR) Index
ALTERNATIVES	**55.0**	**48.0-62.0**	
Mercer Diversified Growth Fund	15.0	+/-1.5	FTSE GBP 1 Month Euro Deposit Index
Mercer Diversified Growth Fund (Hedged)	15.0	+/-1.5	FTSE GBP 1 Month Euro Deposit Index
Mercer Multi-Asset Credit Fund	20.0	+/-2.0	50% BofAML Global High Yield Constrained Hedged 50% S&P/LSTA US Leveraged Loan Hedged
Mercer High Income UK Property CCF	5.0	+/-2.0	FTSE A Over 15 Year Gilts
BONDS	**20.0**	**17.0 - 23.0**	
Mercer Tailored Credit Fund 1	7.0	+/-2.0	n/a
MGI UK Inflation Linked Bond Fund*	13.0	+/-1.0	FTSE A Over 5 Year Index-Linked Gilts
TOTAL	**100.0**		

**Passive Funds*

The combined performance objective is to outperform the benchmark by +2.0% p.a. gross of fees over rolling three year periods.

The Trustees, with guidance from their Investment Advisor, have chosen to invest in open-ended pooled funds. For open ended pooled funds the Trustees' policy is to enter arrangements with no fixed end date. However, in this case the Trustees will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Scheme's open ended investments are weekly dealt, with the exception of the Multi-Asset Credit and Property funds, which are monthly dealt.

The Trustees will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of managers' performance against objectives. The Trustees may also elect to terminate the arrangement with an asset manager when performing ongoing reviews of the suitability of the Scheme's asset allocation over time.

3.2 Cashflow Management and Realisation of Investments

Contributions will be invested, in the normal course of events, with the investment manager.

Both investments (from contributions received) and disinvestments required to meet expenses and benefit payments (in excess of the contributions received) will be sourced from the investment manager who will invest/disinvest in order to keep the asset allocation in line with the strategic benchmark.

3.3 Custody of Investments

The Scheme invests in pooled funds the assets of which are held by a professional Custodian, as appointed by the investment manager. 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 custodian of the assets invested in their pooled vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

3.4 Fee Structure

Mercer levies a fixed fee based on a percentage of the value of the assets under management which covers the investment management of the assets. In addition the underlying managers levy variable fees based on a percentage of the value of the assets under management.

The Trustees also review the fees charged by its Investment Manager on an annual basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Scheme's size and complexity.

The Trustees review investment manager costs and charges (including portfolio turnover costs incurred as a result of buying, selling, lending or borrowing of investments) on a regular basis, to ensure that they are appropriate and competitive for the service being provided. By also monitoring performance net of costs, the investment manager is incentivised to consider the impact of portfolio turnover on investment performance.

4. Responsible investment and corporate governance

4.1 ESG, Stewardship and Climate Change

The core operating principles of Credit Unions are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. In line with these operating principles, the Trustees believe that environmental, social, and corporate governance (ESG) factors and ethical considerations 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have 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 investment managers. These investment managers 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.

The Trustees expect the investment manager to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.

The Trustees consider how ESG, climate change and stewardship are integrated within the investment manager's processes and those of the underlying managers in the monitoring process. The investment manager is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios. Regular monitoring, with specific reference to ESG factors should incentivise the Scheme's investment manager to assess and improve the medium to long-term performance of investee companies, both financial and non-financial. The Trustees believe that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are quickly identified and concerns communicated with the relevant investment manager.

The remuneration of the investment manager is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustees will review and replace the investment manager if net of fees investment performance and ESG practices are not in line with the Trustees' expectations and views. This incentivises the investment manager to act responsibly.

Member views are not currently taken into account when determining the investment strategy, underlying manager structure or selection, retention or realisation of investments. The Trustees will review this position periodically.

4.2 Investment Restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

5. Buying and selling investments

The Trustees have delegated the responsibility for buying and selling investments to the investment manager. The Trustees monitor the portfolio turnover (the frequency that assets are bought and sold) in the context of what the Trustees expect to be reasonable given the nature of each mandate.

6. Compliance with this statement

We, the Trustees, and the investment manager MGIE, and DTRB, our consultants, (all of whom have been appointed by the Trustees) each have duties to perform to ensure compliance with this Statement. These are:

The Trustees will review this Statement regularly and in response to any material changes to any aspect of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the sponsoring employer which the Trustees judge to have a bearing on the stated Investment Policy. This review will occur no less frequently than every three years and any review will be based on the professional expert investment advice from our consultants, and in consultation with the sponsoring employer.

MGIE, the investment managers, will prepare reports to the Trustees including:

- valuations of all investments held for the Scheme

- records of all transactions together with a cash reconciliation
- a review of the recent actions undertaken on behalf of the Scheme together with a summary of their current stated policy

DTRB, our consultants, will provide the advice needed to allow us to review and update this statement no less frequently than every three years (or more frequently if required).

First Amendment: April 2000

Second Amendment: March 2001

Third Amendment: March 2007

Fourth Amendment: June 2013

Fifth Amendment: November 2015

Sixth Amendment: June 2018

Seventh Amendment: January 2019

Eighth Amendment: September 2019

Ninth Amendment: September 2020