Addendum to the Statement of Investment Principles

For the Hogan Lovells UK Pension Scheme

Effective from: September 2023

This addendum to the Statement of Investment Principles ("SIP") for the Hogan Lovells UK Pension Scheme (the "Scheme") has been produced by the Trustee of the Scheme. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Scheme's investment arrangements.

Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Scheme. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Scheme overall. Our investment powers are set out within the Scheme's governing documentation.

1. Trustee

Our responsibilities include:

- developing a mutual understanding of investment and risk issues with the employer
- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors such as those relating to ESG consideration (including but not limited to climate change) and the exercise of rights and engagement activities in respect of the investments
- formulating a policy on taking into account non-financial matters in the selection, retention and realisation of investments
- setting the policy for rebalancing between asset classes

  setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, engaging with and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended)
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the investment policy as part of any review of the investment strategy
- reviewing the SIP and modifying it as necessary, in consultation with the employer.

2. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change and other Environmental, Social and Governance ("ESG") considerations) as appropriate in managing the assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios, including information on voting and engagement undertaken
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

3. Investment adviser

The investment adviser's responsibilities include:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy

- advising on and monitoring liability hedging and collateral management
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- assisting us with reviews of this SIP.

4. Fee structures

The provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets. We have agreed terms with the Scheme's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Scheme, and we keep the fee structures under review.

5. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Scheme's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

6. Working with the sponsoring employer

When reviewing matters regarding the Scheme's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider a range of qualitative and quantitative factors including:

- the strength of the employer covenant and how this may change over time
- the agreed journey plan and employer contributions
- the Scheme's long-term and shorter-term funding targets
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the Scheme's cash flow and target return requirements
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

A key objective is that, over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due. We therefore invest the assets of the scheme to produce a sufficient long-term return in excess of the liabilities. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustee on a regular basis.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (e.g. equities), could materially adversely affect the Scheme's assets. We believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure to different credit issuers, and only invest in bonds that are classified as "investment grade".

Currency risk

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy and believe that it diversifies the strategy and is appropriate.

Furthermore, we manage the amount of currency risk by investing in a number of pooled funds that hedge currency exposure or implement separate currency hedging arrangements. We aim to hedge around 50% of the Scheme's exposure to foreign currency back to Sterling.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bond funds and Liability Driven Investment ("LDI") funds (which utilise interest rate and inflation swaps). However, the interest rate and inflation exposure of the Scheme's assets provide protection (hedges) for part of the corresponding risks associated with the Scheme's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

The Trustee currently targets hedging around 75-80% of the Scheme's liabilities' exposure to interest rate and inflation risk, as measured on a technical provisions basis, by investing in leveraged LDI funds along with passive gilts and short dated credit.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (e.g. extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and we monitor how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately and monitor how these risks are being managed in practice. Further details on our beliefs around ESG risks are included in Section 7 of the SIP.

Illiquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments. We are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, Columbia Threadneedle Investments ("CTI") makes use within its LDI funds of derivative and gilt repos contracts and these funds are used to match efficiently a portion of the Scheme's liabilities. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The Scheme is invested in leveraged LDI arrangements to provide hedging protection against adverse changes in interest rates and inflation expectations. From time to time, depending on market movements, additional cash may need to be invested in the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the cash required to maintain the hedging protection is not available for use within the LDI portfolio within the required timeframe. A possible consequence of this risk materialising is that the Scheme's liability hedging could be reduced, potentially leading to a worsening of the Scheme's funding level.

To mitigate this risk, the Trustee has a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets directly available to support the Scheme's LDI arrangements and the approach that is expected to be taken with regards to selling down any other assets to support the LDI arrangements. The Scheme has a 'collateral waterfall' in place, setting out which funds should be sold automatically in the event of a collateral call and in what order. As part of this leverage management plan, the Trustee periodically monitors the impact of movement in interest rates and inflation expectations and how that compares to the change that can be supported by the assets invested in the LDI arrangements and those directly supporting those arrangements.

The Trustee has also given consideration to what further measures could be taken should the assets referred to in the leverage management plan prove insufficient to support the LDI arrangements, for example, raising additional money from other Scheme assets and/or sourcing money from the employer in the short term.

Valuation risk

Some of the Scheme's assets (such as listed equities) can be valued regularly based upon observable market prices. For other assets (such as real assets) prices may only be estimated relatively infrequently using one or more of a range of approximate methods – e.g. mathematical models or recent sales prices achieved for equivalents.

At times of market stress, there is a risk for all assets that the valuations provided by investment managers do not reflect the actual sale proceeds which could be achieved if the assets were liquidated at short notice. This risk is particularly relevant for assets such as property.

We consider exposure to valuation risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Scheme. We take these into consideration as far as practical in setting the investment arrangements.

Examples include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Scheme's funding target, both in the longer-term as well as against short-term milestones, comparing the actual versus the expected funding level.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is suitably positioned to manage this general risk.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below. The Scheme does not have a direct relationship with the custodians of the funds in which it invests.

Legal and General Investment Management – Low carbon global equities

The Scheme invests in L&G Low carbon global equities via two pooled funds called the Low Carbon Transition Global Equity Index Fund (OFC) and the L&G Low Carbon Transition Global Equity Index Fund – GBP Currency Hedged (OFC).

- the objective of the Low Carbon Transition Global Equity Index Fund (OFC) is to track the performance of the Solactive L&G Low Carbon Transition Global Index (less withholding tax where applicable) to within +/- 0.6% p.a. for two years out of three
- the objective of the Low Carbon Transition Global Equity Index Fund – GBP Currency Hedged (OFC) is to track the performance of the Solactive L&G Low Carbon Transition Global Index – GBP Hedged (less withholding tax where applicable) to within +/- 0.6% p.a. for two years out of three

The funds are both weekly dealing. The funds are open ended and are not listed on any stock exchanges.

Legal and General Investment Management –Infrastructure Equity

The Scheme invests in infrastructure via a pooled fund called the L&G Infrastructure Equity MFG Fund – GBP Currency Hedged.

- the objective of fund is to provide diversified exposure to global listed infrastructure markets and to produce a return broadly comparable to the MFGAM Core Infrastructure Index (less withholding tax where applicable) – GBP Hedged.

The fund is weekly dealing. The fund is open ended and is not listed on any stock exchanges.

Legal and General Investment Management – Absolute Return

The Scheme invests in absolute return via a pooled fund called the L&G Diversified Fund.

- the objective of the fund is to provide long-term investment growth through exposure to a diversified range of asset classes.

The fund is weekly dealing. The Fund is open ended and is not listed on any stock exchanges.

Legal and General Investment Management – Gilts

The Scheme invests in gilts via two pooled funds called the L&G Over 15 Year Gilts Index Fund and the L&G Over 15 Year Index-Linked Gilts Index Fund.

- the objective of the Over 15 Year Gilts Index Fund is to track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/- 0.25% p.a. for two years out of three.
- the objective of the Over 15 Year Index-Linked Gilts Index Fund is to track the performance of the FTSE Actuaries UK Index Linked Gilts Over 15 Years Index to within +/- 0.25% p.a. for two years out of three.

The funds are both daily dealing. The funds are open ended and are not listed on any stock exchanges.

Legal and General Investment Management – Liquidity Fund

The Scheme invests in cash via a pooled fund called the L&G Sterling Liquidity Fund.

- the objective of the fund is to offer access to liquidity whilst providing capital stability. The investment objective of the fund is to provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average).

The fund is daily dealing. The fund is open ended and is not listed on any stock exchanges.

Columbia Threadneedle Investments – Liability Driven Investment (LDI)

The Scheme invests in LDI via two pooled funds called the CT Real Dynamic LDI Fund and the CT Nominal Dynamic LDI Fund.

- The objectives of these funds is to match the interest rate and inflation characteristics of a representative set of pension scheme liabilities.

The funds are daily dealing. The funds are open ended and are not listed on any stock exchanges.

BlackRock – Short dated credit

The Scheme invests in Short dated credit via a pooled fund called the BlackRock Sustainable Sterling Short Duration Credit Fund.

- There is no formal objective for this fund, but the manager will aim to maximise the yield, subject to keeping portfolio duration less than 3 years and minimising downgrade and default risk.

The fund is daily dealing. The fund is open ended and is not listed on any stock exchanges.

BlackRock – Property

The Scheme invests in property via a pooled fund called the BlackRock UK Property Fund.

- The objective of the fund is to outperform the MSCI UK All Balanced Property Fund Index (net of fees).

The fund is priced monthly. The fund is open ended and is not listed on any stock exchanges.

Additional Voluntary Contributions

Standard Life are the providers of AVC arrangements in the Scheme. In addition, some members continue to hold AVCs at Scottish Widows.

Part 4:
Monitoring and engaging with managers on voting and engagement

Stewardship priorities

We have selected some priority themes to provide a focus for our monitoring of investment managers' voting and engagement activities. We will review them regularly and update them if appropriate. Our current priorities are:

- carbon emissions and related climate issues
- corporate activity to the detriment of biodiversity
- labour standards and in particular Diversity, Equity and Inclusion (DEI) and modern slavery are considered a governance priority
- suitable executive remuneration structures, aligning board interests with those of stakeholders.

We chose these priorities because we believe these are areas where there is likely a material financial risk or opportunity, and therefore believe engagement should be prioritised.

We will write to our investment managers to notify them of our stewardship priorities, set out viewpoints and issues of interest and remind them of our expectations of them in relation to responsible investment – i.e. ESG considerations, climate change voting and engagement.

Manager selection

We aim to appoint investment managers that have strong responsible investment skills and processes and have a preference for managers and funds with net zero targets and credible plans to meet them. We therefore favour investment managers who are signatories to the Principles for Responsible Investment, the UK Stewardship Code as well as the Net Zero Asset Managers Initiative.

When selecting new managers, we consider our investment consultant's assessment of potential managers' capabilities in this area. If we meet prospective managers, we usually ask questions about responsible investment, focusing on our stewardship priorities.

Manager monitoring

We receive information regularly to enable us to monitor our managers' responsible investment practices and check how effective they are being.

This information includes metrics such as our investment consultant's responsible investment grades for each manager, whether they are signatories to responsible investment initiatives, and (where available) carbon emissions data for our mandates. It also includes a selection of voting and engagement examples relating to our stewardship priorities. The examples are chosen to reflect our stewardship priorities and material mandates over the course of the scheme year (although not necessarily every priority for every mandate).

Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, we expect most managers will have areas where they could improve. We therefore aim to have an ongoing dialogue with our managers to clarify our expectations and encourage improvements.

We review the information outlined above to identify any concerns, for example where the managers' actions are not aligned with our views. Where there are concerns, we typically seek further information through our investment consultants. If a concern is confirmed, we will consider what further action is appropriate and may take the following steps:

1. We define clearly what the issue is, the objective(s) for the engagement and the target date(s) for achieving those objective(s)
2. We contact the manager to raise the concern and set out our expectations in relation to the issue
3. We aim to agree an improvement plan with the manager with target date(s) for achieving engagement objectives
4. We review periodic progress reports as the plan is implemented. This may include inviting the manager to a meeting to discuss the issue
5. As appropriate we may seek to escalate the concern with a more senior individual at the manager

6. If our concerns are not addressed, we might reduce the allocation to that mandate or replace the manager.

The Trustee Board reviews progress on the engagements on a regular basis and agrees any next steps.

Implementation statement including most significant votes

Following the end of each Scheme year, we prepare a statement which explains how we have implemented our voting and engagement policies during the year. We publish it online for our members to read.

In the statement, we describe how our managers have voted on our behalf during the year, including the most significant votes cast. The Trustee Board selects these votes from a set of significant votes compiled by our investment consultant from those provided by our managers. In doing so, we have regard to:

- votes that align with the Trustee's stewardship priorities
- votes that have a potential material impact on future company performance
- votes that have a potential material impact on stewardship outcomes
- votes on any matter when they relate to one of the Scheme's 10 largest holdings
- shareholder resolutions on climate related policies and activities that would result in biodiversity loss
- votes involving company proposals that would be at odds with the expectations of the UK Corporate Governance code (to the extent that compliance would be reasonable in the market in question). This would include, but is not limited to, matters of excessive or inappropriate executive remuneration; issues relating to board make up (including DEI, lack of term limits and lack of chair independence) and ineffective audits.