Statement of Investment Principles

London Stock Exchange Group Pension Scheme

December 2021

Introduction

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 (the "Act"), for the London Stock Exchange Group Pension Scheme ('the Scheme'). It describes the investment policy being pursued by LSEG Pension Trustees Limited ("the Trustee") acting in its capacity as trustee of the LCH Section and LSE Section of the Scheme and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee is responsible for the investment of the Scheme's assets and arranges administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives advice from the relevant advisers first and it believes that this ensures that it is appropriately familiar with the issues concerned.

Declaration

The Trustee confirms that this SIP reflects the principles governing how decisions about investments are made for the Scheme. The Trustee acknowledges that it is responsible, with guidance from the advisers, for ensuring the assets of the Scheme are invested in accordance with these principles.

Signed .... **Date** ....

For and on behalf of the Trustee of the London Stock Exchange Group Pension Scheme

Investment Objectives

- The principal objective of the Trustee is to ensure the Scheme has sufficient assets such that the benefits promised to members are paid on time and in full. This objective will be achieved by combining investment returns and an agreed contribution schedule with the covenant of London Stock Exchange Plc and LCH Limited ('Sponsors'), set out as part of the Alternative Funding Framework ("AFF").

- To reduce the Scheme's dependence on the Sponsor covenant, and to better ensure member benefits are paid, the Trustee has agreed a primary funding objective for both the LSE Section and the LCH Section ("the Sections") to reach full funding by 31 December 2022 using a long-term discount basis of Gilts +0.25% p.a.

- The investment strategy of each Section is managed and monitored using a Pensions Risk Management Framework ("PRMF"), which outlines the funding objectives and risk constraints set by the Trustee. The PRMF for each Section is reviewed and monitored by the Trustee on at least a quarterly basis including the expected return on assets as provided by the Investment Consultant.

- Where possible and appropriate, the Trustee has converged both Sections' investment strategies including their strategic asset allocations, the return targets and the investment managers. However, there will remain differences between the Sections.

- The Trustee invests in 'growth assets', with the aim of providing exposure to market and manager risks that are deemed to be 'rewarded', in the sense they are expected to generate a return above the risk-free rate of investment in order to help close any shortfall (deficit) of assets relative to liabilities. The Trustee aims to diversify risk across the growth assets by allocating to investments across different asset classes and investment managers.

- The Trustee deems interest rate and inflation risks as 'unrewarded' risks. These risks arise from the fact that the valuation of liabilities is dependent on market rates of inflation and interest rates. The Trustee therefore aims to reduce the impact of these risks and reduce overall Scheme risk by investing in 'liability matching assets', which aim to mirror the impact that interest rate and inflation movements have on the value of Scheme liabilities. By reducing the impact of interest rate and inflation movements, each Section is more able to spend its risk budget on growth assets to help improve the funding position.

- The Trustee sets risk budgets for both the LSE and LCH Sections. The Trustee aims to keep the investment risk within the set risk budgets and will discuss whether action is required if the risk breaches the set risk budgets. The Trustee's risk budgeting framework and modelling is developed over time.

- In setting the investment strategy, the Trustee aims to:

    - Target an expected return above the required return to meet the funding objective.

    - Capture the higher returns potentially available from maintaining exposures to asset classes, markets and manager risks which carry a theoretical risk premium. It will do so in a risk-controlled and diversified way having regard to the relationship between risk and return and the overall liability-driven objective.

    - Maintain suitable liquidity of assets such that the Scheme is not forced to sell investments at unfavourable times to pay member benefits or meet potential collateral calls.

- The Scheme holds investments as permitted by its Trust Deed and Rules.

This SIP includes a short appendix which sets out specific details on the investment strategies (e.g. allocation weightings and risk budgets).

Investment Strategy

Having considered advice from its advisers, and having due regard for the objectives, the liabilities of the Scheme, the risks of and to the Scheme and the covenant of the Sponsors, the Trustee has adopted an appropriate investment strategy. The investment strategy is driven by the objectives and constraints from the PRMF, which helps balance the risks and returns required to reach each Section's funding objectives.

Separate to the objectives and constraints of the PRMF, the investment strategies for both Sections are additionally designed to target the following two objectives:

- **Convergence between the two Sections**

  Subject to meeting the objectives and constraints from the PRMF, the Trustee has chosen to invest in similar assets across the two Sections and to also use the same Investment Managers where possible. This will help to lower the governance burden for the Trustee and the Investment Committee and allows the Scheme to negotiate more favourable fee deals with its Investment Managers.

- **A 'buy-out friendly' investment strategy**

  The Trustee has set investment strategies for both Sections that would give optionality to the Trustee to conduct buy-out transactions with an insurer in the future. That is, each Section invests a meaningful portion into liquid assets that can either be sold at low cost prior to a transaction or assets that may be desirable to an insurer in a buy-out transaction. Consequently, this generally excludes the Trustee from making new investments into illiquid assets which are not deemed 'buy-out friendly'. The overall strategy is sufficiently liquid so that most of the assets could be sold quickly and cheaply to fund a buy-in or buy-out if required. To be clear however, this does not imply that the Trustee or Sponsors have made any decision about conducting a buy-out transaction in the near future.

Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets, for both Sections. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme. It allows the Trustee to make the important decisions on investment policy, while investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments.

The Trustee has also established an Investment Committee ("IC"). Certain matters are formally delegated to the IC by the Trustee Board ("the Board") in relation to the Scheme's defined benefit liabilities and Additional Voluntary Contributions ("AVCs"), and the IC is empowered to make decisions on these matters without prior reference to the Board. A complete breakdown of the delegated authorities can be found in the separate Scheme document titled 'Schedule of matters reserved to the Board and delegated authorities'.

Investment Managers

- The Trustee delegates the day-to-day management of the assets to multiple Investment Managers.

- Investment Managers are carefully selected by the IC to manage each of the underlying mandates, following guidance and written advice from its Investment Consultant.

- Due to the benefits of cost and ease of implementation, it is the Trustee's preference to invest in pooled investment vehicles with the exception of the LDI portfolio. The Trustee recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. However, the Trustee's Investment Consultant ensures the investment objectives and guidelines of the manager are consistent with that of the Trustee.

- When relevant and in conjunction with the Scheme's AFF full funding target, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and to use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

- The Scheme pays an ad valorem fee to each manager. This, along with the mandate's performance targets, benchmarks and restrictions, are set out in the respective Investment Management Agreements and Prospectuses. The Scheme's Investment Consultant will assist the Trustee in reviewing the fees periodically to ensure they are competitive and in line with market practices. The IC assesses the managers' performance regularly against a benchmark appropriate to each manager, accounting for the level of risk taken by each manager. The IC, in conjunction with the Scheme's Investment Consultant may periodically review the manager's benchmarks to check their appropriateness. To assist the Trustee in assessing performance, the Investment Consultant will provide relevant reporting on a quarterly basis to both the IC and Board. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme's Investment Managers to its Investment Consultant.

- From time to time Investment Managers and/or mandates are changed and this is done after due consideration and the receipt of appropriate advice from an Investment Consultant.

Asset Allocation

The IC invests the Scheme's assets in a portfolio of growth assets and liability matching assets.

The growth assets have the objective of outperforming the liabilities by investing in a suitably diversified range of assets, consisting of liquid multi-asset strategies, corporate bonds, other credit alternatives, and property which together are expected to reduce investment volatility. These investments are intended to provide exposure to market and manager risks that are deemed to be "rewarded" in the sense they are expected to generate a return above the risk-free rate of investment.

The liability matching assets have the objective of using a liability driven investment strategy to hedge against what the Trustee deems to be "unrewarded" interest rate and inflation risks associated with liabilities by investing predominantly in a range of gilts, both nominal and index linked. The LSE Section also includes a bulk annuity transaction (buy-in), insuring the benefits for a part of the Scheme's liabilities associated with a pensioner sub-cohort.

This combination of growth assets and liability matching assets is expected to provide an appropriate risk and return profile, with suitable interest rate and inflation hedging characteristics, consistent with lower volatility and improving funding level through time.

Monitoring

Investment Managers

The Trustee will monitor the performance of the Investment Managers against the agreed performance objectives and against a set of benchmarks appropriate to each manager and what the Trustee seeks to gain, accounting for the level of risk taken by each manager.

The IC, or the advisers on behalf of the Trustee, will regularly review the activities of the Investment Managers to satisfy itself that each Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of Scheme.

As part of this review, the IC will consider whether each Investment Manager:

- Is carrying out its function competently and in line with the terms of the Investment Management Agreement, or fund prospectus.
- Has regard to the suitability of each investment and each category of investment.
- Is providing good value for money.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, including the principle on Environmental, Social and Governance ("ESG") issues, so far as is reasonably practical.

When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe in conjunction with the Scheme's AFF full funding objective. The Trustee would not typically expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Following a full appraisal of an Investment Manager and the accompanying advice, should the Investment Manager not meet the IC's requirements then the IC may remove the Investment Manager and appoint another.

The IC reviews the portfolio transaction costs and portfolio turnover range of managers periodically, where the data is disclosed and available. The IC will then determine whether the costs incurred were within reasonable expectations.

Review frequency of the Statement of Investment Principles

The Trustee aims to review this SIP annually, or, without delay, following any changes to the investment strategy, and modify it with consultation from their advisers and the Sponsor. There will be no obligation to change this SIP, and any Investment Manager or Advisers as part of such a review.

Risks

The Trustee recognises there are numerous risks involved in investing the assets of the Scheme. Some of these are 'rewarded investment risks' that are taken through investments in return seeking assets to generate investment returns to improve the funding position. The Trustee also invests in liability matching assets and derivatives which aim to address the 'unrewarded investment risks' of the Scheme. The main risks that the Scheme is exposed to are:

- Deficit risk: i.e. that the Scheme has insufficient assets to cover 100% of the liabilities
- Investment manager risk: arising from a failure to meet target returns
- Liquidity risk: arising from a shortfall of liquid assets relative to the Scheme's immediate liabilities
- Mismatching risk: arising from a difference in the sensitivity of assets and liability values to financial and demographic factors
- Covenant risk: the possibility of failure of the Scheme's sponsors
- Counterparty risk: arising from the failure of a third party to fulfil its obligations under a financial (e.g. derivative or bulk annuity) contract entered with the Scheme.

These risks are reduced by careful structuring of the Scheme's funding and investment management arrangements and through the contracts with the investment managers. The IC closely monitors these risks using the PRMF and receives formal quarterly reports on funding, liquidity, investment managers (including performance) and diversification.

The Trustee maintains a risk register as a way of managing existing risks as well as new and emerging risks. This is reviewed at least annually to identify new risks and determine whether the existing risks the Scheme is exposed to are within a reasonable level of tolerance.

Other Issues

LSE Section buy-in contract

The LSE Section has entered into a buy-in contract with Pension Insurance Corporation ("PIC"). The buy-in contract is a bulk insurance policy (annuity) purchased by and held in the name of the LSE Section that ensures monies will be paid to the Trustee in line with the pension benefits of the insured members. The buy-in policy is an asset of the LSE Section and insures the LSE Section against almost all investment and longevity risks in respect of members who retired before April 2016.

Statutory Funding Objective

The Trustee will obtain and consider proper advice on the question of whether the investments are satisfactory, having regard to both the investment objectives and the requirement to meet statutory funding requirements.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The Trustee will consider, with their advisers, whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding objective.

Environmental, Social and Governance issues

Environmental, Social and Governance ("ESG") **issues, including those arising from climate change may be financially material to the investment portfolio. The Trustee considers the long-term financial interests of the Scheme to be paramount, and, where appropriate and practical:**

- Incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

- Expects investment managers to consider financially material environmental, social and governance issues in investment decision making.

Non-financial matters including ethical views of beneficiaries and members are not ordinarily considered in the selection, retention and realisation of investments.

Stewardship and Engagement

The Trustee recognises that good stewardship practices, including engagement and voting activities are important as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expect their investment managers to practise good stewardship. This includes monitoring and engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

The Trustee's Investment Consultant assesses the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments, and reports to the Trustee periodically covering how the investment managers have acted in line with this policy.

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments which are exercised by the asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

The Trustee also engages with the Sponsor in particular consulting on changes to the long-term funding target and any changes to the SIP.

Additional Voluntary Contributions (AVCs)

Under the Scheme's Trust Deed and Rules, members can invest AVCs to improve the benefits they receive at retirement. The Trustee has selected a range of investment funds for the AVCs to be invested in.

The Trustee keeps these arrangements under review having regard to their performance, the objectives and the views of the advisers.

Appendix

Allocation of Assets

LSE Section – Agreed Strategic Asset Allocation ("SAA") (As at end of November 2021)

ASSET CLASS	WEIGHTING (%)
LIABILITY MATCHING INVESTMENTS	**56%**
LIQUID MARKETS INVESTMENTS	**12%**
DIVERSIFIED RISK PREMIA	6%
DIVERSIFIED GROWTH FUNDS	6%
LIQUID CREDIT INVESTMENTS	**28%**
UK INVESTMENT GRADE CREDIT	15%
ABSOLUTE RETURN BONDS	13%
ILLIQUID CREDIT INVESTMENTS	**2%**
DIRECT LENDING	2%
ILLIQUID MARKETS INVESTMENTS	**3%**
DISTRESSED DEBT	2%
REAL ESTATE	1%
TOTAL ALLOCATION	**100%**

LCH Section – Agreed SAA (As at end of November 2021)

ASSET CLASS	WEIGHTING (%)
LIABILITY MATCHING ASSETS	**68%**
LIQUID MARKETS INVESTMENTS	**13%**
DIVERSIFIED RISK PREMIA	4%
DIVERSIFIED GROWTH FUNDS	9%
LIQUID CREDIT INVESTMENTS	**19%**
UK INVESTMENT GRADE STERLING CREDIT	10%
ABSOLUTE RETURN BOND FUND	9%
TOTAL ALLOCATION	**100%**

A formal review of the asset allocation is undertaken by the Trustee at least annually, with the advice of the Investment Consultant. The Trustee recognises that the actual percentage allocations will change between these reviews as the value of each investment varies and as such it is expected that there will be a difference between the actual asset allocation and the SAA over time.