Westpac Banking Corporation
UK Staff Superannuation Scheme ("the Scheme")
Statement of Investment Principles

The Westpac Banking Corporation UK Staff Superannuation Scheme ('the Scheme') provides a Defined Benefit ("DB") and Defined Contribution ("DC") pension arrangement. Within the Scheme there are a number of Sections, this document relates solely to the DB arrangements. The Statement of Investment Principles ("SIP") for the DC arrangements is a separate document.

This SIP is set out in two parts, firstly the objectives and implementation of the defined benefit section and secondly the Trustees' overall policy on issues that apply to the defined benefit section.

Defined Benefit Section

Investment Objective

The Trustees aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

STRATEGY

The Trustees have chosen to split the Scheme's assets into two portfolios, a "Growth Portfolio" and a "Matching Portfolio", in order to meet the above objective.

The benchmark allocation between the two portfolios is set out below:

	Benchmark Allocation %	**Range (%)**
Growth Portfolio	10.0	+/- 2.50
Matching Portfolio	90.0	+/- 2.50

The actual asset allocation of the Scheme may vary from the benchmark allocation from time to time due to market movements, manager performance, cashflows or short-term investment considerations. The Trustees monitor the asset allocation and consider opportunities to rebalance the asset allocation when appropriate after taking account of a range of factors.

The asset class in the Growth Portfolio is set out below.

Asset Class
Multi-Asset Diversified Growth

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

Asset Class
Aquila Life 2022 Index Linked Gilt Fund
Aquila Life 2027 Index Linked Gilt Fund
Aquila Life 2030 Gilt Fund
Aquila Life 2032 Index Linked Gilt Fund
Aquila Life 2040 Gilt Fund
Aquila Life 2040 Index Linked Gilt Fund
Aquila Life 2050 Index Linked Gilt Fund
Aquila Life 2052 Gilt Fund
Aquila Life 2060 Gilt Fund
Aquila Life 2062 Index Linked Gilt Fund
Aquila Life 2068 Index Linked Gilt Fund
Aquila Life 2068 Gilt Fund

Funds disinvested from the fixed income portfolio have been invested in BlackRock's suite of Aquila Life gilt and index-linked gilt funds, outlined above. BlackRock will manage the matching portfolio such that the overall portfolio hedges 100% of the interest rate and inflation sensitivities of the Scheme's solvency liabilities, as calculated by the Scheme Actuary.

The strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustees' policy is to make the assumption that equities, which the Scheme invests in via their Diversified Growth Fund, will outperform gilts over the long term and assumes that active fund management can be expected to add value. However, the Trustees recognise the potential volatility in equity returns, particularly relative to the Scheme's liabilities, and the risk that the fund managers do not achieve the targets set.

When choosing the Scheme's planned asset allocation strategy the Trustees considered written advice from their investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

RISK MEASUREMENT AND MANAGEMENT

The Trustees recognise that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustees have identified a number of risks which have the potential to cause deterioration in the Scheme’s funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustees and their advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme’s immediate liabilities (“cash flow risk”). The Trustees and their advisers will manage the Scheme’s cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund manager to achieve the rate of investment return assumed by the Trustees (“manager risk”). This risk is considered by the Trustees and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The Trustees and their advisers considered this risk when setting the Scheme’s investment strategy.
- The possibility of failure of the Scheme’s sponsoring employer (“covenant risk”). The Trustees and their advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence (“operational risk”). The Trustees have sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustees consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews.

The Trustees’ policy is to monitor, where possible, these risks quarterly. The Trustees receive quarterly investment reports from the fund managers showing performance versus their respective targets.

IMPLEMENTATION

Aon have been selected as investment advisers to the Trustees. They operate under an agreement to provide a service which ensures the Trustees are fully briefed to take certain decisions themselves and to monitor those they delegate. Aon are paid on a time cost basis for all the work they undertake for the Scheme although fixed fees may be negotiated by the Trustees for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustees have delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract.

In setting the Scheme's investment strategy, the Trustees primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Environmental, Social & Governance

The Trustees regularly add any ESG related risks to the Scheme's Risk Register and intend to take the following steps to monitor and assess ESG-related risks and opportunities:

- Undertake periodic Trustee Training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's investment strategy.
- Include ESG-related risks, including climate change, on the Scheme's risk register as part of ongoing risk assessment and monitoring.
- Develop a standalone Responsible Investment Policy which aims to capture greater detail around the Trustees' beliefs and views on the topic.

Arrangements with fund managers

The Trustees monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the fund managers are aligned with the Trustees' policies. This includes monitoring the extent to which fund managers:

- Make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment consultant.

Before appointment of a new fund manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies.

The Trustees believe that having appropriate governing documentation, setting clear expectations to the fund managers by other means and regular monitoring of fund managers' performance and investment strategy, is in most cases sufficient to incentivise the fund managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where fund managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the manager but could ultimately replace the fund manager where this is deemed necessary.

There is typically no set duration for arrangements with fund managers, although the continued appointment of fund managers is assessed on an ongoing basis.

Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately this creates long-term financial value for the Scheme and its beneficiaries.

When choosing investments, the Trustees and the fund manager (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The managers' duties also include:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustees' voting rights in relation to the Scheme's assets

The Trustees will review the stewardship activities of the Scheme's fund managers on an annual basis, covering both engagement and voting actions. In doing so, the Trustees will ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The transparency for voting provided by the fund managers will include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes were abstained; voting differed from the voting policy of either the Trustees or the fund manager. The Trustees recognise that these collaborative behaviours can work to further mitigate the risks identified for the Scheme.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, a fund manager or another holder of debt or equity, and other stakeholders. The Trustees may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).

Costs and Transparency

The Trustees are aware of the importance of monitoring their fund manager's total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are other costs incurred by the fund manager that can increase the overall cost incurred by their investments.

The Trustees will therefore collect annual cost transparency reports covering all of their investments in line with the appropriate Cost Transparency Initiative ("CTI") template for each

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

asset class. This allows the Trustees to understand exactly what costs are incurred across the investment portfolio.

The Trustees acknowledge that portfolio turnover costs are a necessary cost in order to generate investment returns and that the level of these costs varies across asset classes and pooled funds. A high level of transaction costs is acceptable so long as it is consistent with the asset class characteristics, manager’s style and historic trends. Where the Trustees' monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustees are supported in their cost transparency monitoring activity by their investment consultant.

GOVERNANCE

The Trustees are responsible for the investment of the Scheme’s assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustees have established the following decision making structure:

Trustees	• Set structures and processes for carrying out their role. • Select and monitor planned asset allocation. • Select and monitor direct investments (see below). • Select and monitor investment advisers and fund managers. • Select investment structures and oversee their implementation.
Investment adviser	• Advise on all aspects of the investment of the Scheme's assets, including implementation of strategy. • Advise on this statement. • Provide required training for the Trustees.
Fund Manager	• Operate within the terms of this statement and the written contracts in place. • Select individual investments with regard to their suitability and diversification. • Advise the Trustees on suitability of the benchmark.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustees’ policy is to review their direct investments and to obtain written advice about them at regular intervals (normally annually).When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustees expect the fund manager to manage the assets delegated to it under the terms of its contract and to give effect to the principles in this statement so far as is reasonably practicable.

The fund manager is remunerated on an ad valorem basis. In addition, the fund manager also pays commissions to third parties on many trades it undertakes in the management of the assets and also incurs other ad hoc costs.

Custody of the Scheme's assets is arranged individually by the fund manager. The custodians provide safekeeping for all the Scheme's assets and perform the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustees will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustees will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.