

Registration Number: 00281436RK

**THE PEARSON PENSION PLAN
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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THE PEARSON PENSION PLAN

TRUSTEE AND ADVISERS TO THE PLAN

Trustee	Pearson Pension Trustee Limited
Principal Employer (Company)	Pearson Services Limited
Participating Employers	Pearson College Limited Pearson Education Limited Pearson Management Services Limited Pearson Pension Trustee Services Limited (until 31 March 2023) Pearson Professional Assessments Limited Pearson Shared Services Limited TQ Education and Training Limited
Auditors	Crowe U.K. LLP
Actuary	S Leake
Actuarial and Consulting Services	XPS Pensions Group Plc
Investment Consultant	Lane Clark & Peacock LLP Aon UK Limited (Direct property, Infrastructure and Property funds)
Bankers	National Westminster Bank Plc
Solicitors	Linklaters LLP

Investment Management

Investment Managers of the Defined Benefit Sections

Area of specialisation

Legal & General Assurance (Pensions Management) Limited	Liability driven investment mandate
LaSalle Investment Management Limited	Property
CBRE Investment Management Indirect Limited	Property
Pantheon Ventures Limited	Private equity
Meridiam Infrastructure Managers S.a.r.l.	Infrastructure
Astatine Investment Partners LLC (formerly Alinda Capital Partners LLC)	Infrastructure
EQT Infrastructure (General Partner) LP	Infrastructure
Aberdeen Infrastructure Finance GP Limited	Infrastructure
InfraRed Capital Partners Limited	Infrastructure
Allianz Global Investors GmbH (appointed May 2022)	Trade Finance
Aegon Asset Management Limited	Bonds
Yorkshire Building Society, trading as Chelsea Building Society	Bonds

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TRUSTEE AND ADVISERS TO THE PLAN (continued)

Annuity providers

Legal and General Assurance Society Limited
Aviva Life & Pensions UK Limited
The Prudential Assurance Company Limited
Clerical Medical Investment Group Limited
ReAssure Limited

Investment custodians

BNY Mellon Asset Servicing Limited
Gowling WLG

Investment Managers of the Money Purchase 2003, Auto Enrolment and AVC Sections

Area of specialisation

BlackRock Advisors (UK) Limited	Equities, corporate bonds, cash, fixed interest and index linked gilts
Jupiter Unit Trust Managers Limited	Alternative global equities
Columbia Threadneedle Pensions Limited	Alternative global equities and property
Newton Investment Management Limited	Diversified growth fund
Baillie Gifford & Co Limited	Diversified growth fund
Schroder Unit Trusts Limited	Diversified growth fund
MFS Investment Management Company (Lux) S.à.r.l.	Global equities

The DC investment funds managed by the investment managers above are administered on a platform provided by Aviva Life & Pensions UK Limited (known herein as 'Aviva'). In addition to the above, the Plan also has legacy AVC investments. There are no ongoing contributions made into these funds. The investment managers of these funds are listed below.

Clerical Medical Investment Group Limited
The Prudential Assurance Company Limited
Phoenix Life Limited
The Royal London Mutual Insurance Society Limited

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT

1 CONSTITUTION AND STRUCTURE OF THE PLAN

The Pearson Pension Plan (the Plan) is administered in accordance with the Rules in the interests of its beneficiaries by Pearson Pension Trustee Limited (the Trustee). Responsibility for day to day management is delegated to the Chief Executive Officer (CEO) of Pearson Pension Trustee Services Limited, the entity which administers the Plan.

The Plan is organised into sections, each with its own benefit structure. From 1 December 2006, all sections were closed to new entrants with the exception of the Money Purchase 2003 (MP03) Section. On 1 September 2013, in response to legislation, the Auto Enrolment (AE) Section was also added. The Money Purchase 2003 and Auto Enrolment sections are available to new employees of companies participating in the Plan who satisfy the eligibility criteria. The Auto Enrolment Section has been designed to meet the minimum legislative requirements for eligible jobholders who meet the Auto Enrolment criteria and do not wish to join the Money Purchase 2003 Section of the Plan. In addition, the rules also allow non-eligible jobholders and entitled workers to opt into the Auto Enrolment Section.

Up until 5 April 2016, the Plan was contracted-out for the purpose of the Pension Schemes Act 1993 by virtue of satisfying section 9(2) of that Act. All employments to which the Plan relates were contracted-out employments for the purpose of that Act, with the exception of those members joining the Auto Enrolment Section of the Plan. This means that contracted out members did not contribute to the State Second Pension (S2P), and that their retirement benefits are subject to the reference scheme test (RST) underpin. The Plan is also a Registered Pension Scheme under section 153 of the Finance Act 2004, the effect of which is to give tax relief on members' and employers' contributions, certain classes of investment income and on capital gains of the Plan.

From 6 April 2016, Plan members who reach State Pension age on or after that date get the new single-tier State Pension which replaced the current Basic State Pension and the State Second Pension. The introduction of the single-tier State Pension means that it is no longer possible for the Plan to contract-out of the State Second Pension.

From November 2022, a salary exchange model was implemented for pension contributions for most members of the Plan, except those who opted out.

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TRUSTEE'S REPORT (continued)

2 GOVERNANCE

The Directors of the Trustee, Pearson Pension Trustee Limited, who served during the year and those serving at the date of approval of the financial statements were:

"A" Directors

Company Nominated Directors

Michael Kearton
Joanne Russell
William Nash

Member Nominated Directors

Naomi Maradas
Nigel Rendell (resigned 21 February 2023)
Louise Jones (reappointed 22 February 2023)
George Graham (appointed 22 February 2023)

"B" Directors

James Joll, Chairman
John Plender
Lynn Ruddick

Company Secretary

Stephen Beaven

The principal employer under the Plan, Pearson Services Limited (PSL), has the power to appoint and remove the Trustee, but only with the consent of the Trustee. PSL holds all the "A" shares in the Trustee entity. These shares give it the right to appoint three "A" Directors and to remove and replace them. PSL also appoints a further three "A" Directors who are nominated by members. In respect of the three member-nominated "A" Directors (MNTs), PSL acts in accordance with the Plan's member-nominated trustee procedures.

The "B" Directors hold all the B shares in the Trustee. These shares give them the right to appoint three "B" Directors and to remove and replace them. The "B" Directors, who are not current Pearson employees and are appointed with no fixed time limit, have special voting rights and if any proposals are made which they believe are not in members' best interests, they may by unanimous decision require the Plan to be wound up.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Boards and Committees

Investment Committee

The members of the Investment Committee are appointed by the Trustee. The Investment Committee reviews the investment performance of the investment managers (including listed investments) on a regular basis, monitors the compliance of the investment managers with the relevant guidelines and makes recommendations to the Trustee on investment matters.

The Investment Committee members who served during the year and those serving at the date of approval of the financial statements were:

James Joll (Chairman)
Lynn Ruddick
John Plender
Joanne Russell

Alternative investment committee and Pearson Pension Property Fund Limited

The Pearson Pension Property Fund (the Property Fund) holds the property investment portfolio of the Plan and is administered by the Property Trustee, whose Directors are appointed by the Plan Trustee. The Property Trustee is a joint trustee of the Property Fund along with Pearson Pension Nominees Limited (previously Pearson Nominees Limited) which acts as a custodian. The Property Trustee and Pearson Pension Nominees Limited, as joint trustees, have delegated all administration of the Property Fund to the Property Trustee.

The alternative investment committee's responsibilities include monitoring infrastructure investments made by the Plan, investing the funds contained in the Property Fund, appointing and removing the property and infrastructure fund managers, and reporting to the Plan Trustee, which is the sole beneficiary of the Property Fund.

The Directors of the Property Trustee and the alternative investment committee who served during the year and those serving at the date of approval of the financial statements were:

James Joll (Chair)
Mark Collins (external independent member)
John Plender
Michael Kearton
Patrick Crawford (external independent member)

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TRUSTEE'S REPORT (continued)

Audit and Risk Committee

The members of the Audit and Risk Committee are appointed by the Trustee. The committee reviews the accounting, financial reporting, internal control and risk management processes of the Plan and the audit of its financial statements.

The committee members who served during the year and those serving at the date of approval of the financial statements were:

Ian Armfield (Chair, external independent member)

Michael Kearton

Helena Peacock (resigned 31 December 2022)

William Nash (appointed 14 September 2022)

Louise Jones

Remuneration Committee

The committee reviews the level of fees (on a triennial basis) payable to directors of Pearson Pension Trustee Limited, directors of Pearson Pension Property Fund Limited and other committee members. The level of fees is set with consideration to market rates, responsibilities, skills and experience, meetings schedule and time commitment required by members of the committees.

The committee members who served during the year and those serving at the date of approval of the financial statements were:

John Plender (Current Chair – appointed 4 May 2022)

James Joll (Former Chair – resigned 4 May 2022)

Michael Kearton (resigned 4 May 2022)

Joanne Russell (resigned 4 May 2022)

Nigel Rendell (appointed 4 May 2022 and resigned 21 February 2023)

Louise Jones (appointed 8 March 2023)

William Nash

Death Benefits Committee

The committee reviews death benefit cases and approves benefit payments to a dependent.

The committee members who served during the year and those serving at the date of approval of the financial statements were:

Naomi Maradas (Current Chair – appointed 8 March 2023)

Nigel Rendell (Former Chair - resigned 21 February 2023)

Stephen Beaven

George Graham (appointed 22 March 2023)

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TRUSTEE'S REPORT (continued)

Rules Committee

The committee reviews new rules and alterations to the documents that govern the Plan and Sections.

The committee members who served during the year and those serving at the date of approval of the financial statements were:

James Joll (Chair)
Nigel Rendell (resigned 21 February 2023)
William Nash
George Graham (appointed 22 February 2023)

Internal Dispute Resolution Process Committee

The committee reviews internal dispute resolution cases and approves what action is to be taken including whether any compensation is applicable.

The committee members who served during the year and those serving at the date of approval of the financial statements were:

James Joll (Chair)
Nigel Rendell (resigned 21 February 2023)
Naomi Maradas
George Graham (appointed 22 February 2023)

Working parties

In addition to the committees described above, the Trustee has established a number of working parties to focus on particular subject areas.

Governance arrangements

The Trustee considers that good governance is essential to the management of the Plan and has established a framework to ensure standards of governance receive appropriate attention and that any changes required are addressed.

As part of its governance framework, the Trustee produces an annual action plan, which it reviews with its professional advisers to ensure the Plan continues to be managed in accordance with its rules, and legal requirements.

The Trustee maintains a Risk Register and Assurance Plan to identify the key risks which may affect the Plan and the controls implemented to mitigate them and reviews an integrated risk management dashboard quarterly. These documents are monitored and reviewed on a regular basis to ensure compliance with the Code of Practice on Internal Controls and the guidance notes, issued by The Pensions Regulator.

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TRUSTEE'S REPORT (continued)

Governance arrangements (continued)

These governance documents enable the Trustee to monitor the arrangements, procedures, and systems in place for the management of the Plan and the security of its assets. They also provide the basis for regular review and assessment.

The Pensions Regulator has published Regulatory Guidance and the Trustee has assessed whether or not it meets all of the requirements. Each DC workplace pension scheme is required to publish a Defined Contribution Governance Statement, which is presented on page 24 of this Report and Financial Statements.

The good governance of the Plan is monitored by the Plan's Audit and Risk Committee which also considers the work undertaken and any recommendations made by both Pearson plc's internal audit department and by the Plan's statutory auditor, Crowe U.K. LLP.

3 MEMBERSHIP

Membership of the Plan is analysed in the following table:

	Defined Contribution Sections			Defined Benefit Sections				Plan Total
	Active	Deferred	Total	Active	Deferred	Pensioners	Total	
Members as at 1 January 2022	2,969	10,134	13,103	56	4,758	8,607	13,421	26,524
Opening / closing adjustments	(4)	(1)	(5)	-	1	-	1	(4)
New joiners	706	-	706	-	-	-	-	706
Retirements	-	(40)	(40)	(3)	(307)	350	40	-
Leavers with deferred benefits	(574)	574	-	(4)	4	-	-	-
Leavers taking transfers out	(3)	(169)	(172)	-	(31)	(1)	(32)	(204)
Deaths	(7)	(16)	(23)	(1)	(112)	(281)	(394)	(417)
New dependant pensioners	-	-	-	-	-	152	152	152
Ceased dependants	-	-	-	-	-	(139)	(139)	(139)
Other leavers*	-	(81)	(81)	-	(38)	(9)	(47)	(128)
Members as at 31 December 2022	3,087	10,401	13,488	48	4,275	8,679	13,002	26,490

* Other leavers category includes members taking trivial commutations and historic short service refunds

The pensioners category includes all pensions in payment to spouses and dependant children of deceased members and 240 (2021:193) Defined Contribution members on ill health, dependant pensioners and DC members who have opted for the Plan pension at retirement. These pensions are funded by the Plan and are paid through the pensioner payroll. It also includes 6,206 (2021: 6,376) pensioners that are insured under annuity policies. The Plan provides death in service benefits for 645 (2021: 800) UK employees (Life Assurance Members) who do not participate in the pension arrangements under the Plan.

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TRUSTEE'S REPORT (continued)

4 FURTHER INFORMATION

Pension Plan funding

The Report on Actuarial Liabilities (forming part of the Trustee Report) on page 78 informs members each year, about the funding position of the Plan. The Summary Funding Statement was included in the Trustee's Annual Report to Members.

The Plan Actuary last carried out an actuarial valuation as at 1 January 2021 on the funding assumptions agreed by the Trustee and the Employer. The main purpose of the valuation is to review the financial position of the Plan to enable the employer's contribution rate to be determined for funding purposes. On 21 January 2022, the Trustee finalised this valuation and the Actuary certified a Schedule of Contributions. A new Schedule of Contributions was agreed on 10 November 2022. Contributions from 1 January 2022 to 31 October 2022 were payable in accordance with the Schedule of Contributions dated 20 January 2022 and contributions from 1 November 2022 to 31 December 2022 were payable in accordance with the new Schedule dated 10 November 2022.

The valuation concluded that as at 1 January 2021 the market value of the Plan's assets was 104% of the amount required to cover the value of benefits on a technical provisions basis. Subsequent to the publishing of the Company's 2022 results, the Trustee completed its covenant review and concluded, based on the Company's cash generating capacity, strong balance sheet and liquidity, and the Plan's strong funding position, that the Trustee considers the Company provides reliability in its ability to cover any deficit in the Plan. The Trustee therefore grades the covenant as Tending to Strong.

A reserve has been included in the 1 January 2021 valuation to reflect the estimated impact of changes to benefits for current Plan members from unequal Guaranteed Minimum Pensions (GMPs) between males and females and for unequal GMP in transfer values paid to former members who transferred out. See page 75 for details.

Pearson plc has provided the Trustee with a guarantee that it will meet the payment obligations to the Plan of any of the participating employers who fail to meet them.

A copy of the Actuarial Valuation Report as at 1 January 2021, Statement of Funding Principles, Schedule of Contributions, and Annual Report to Members 2022 are available on request from The Pearson Pension Plan, P.O. Box 9519, Sherborne, DT9 9EN. These documents are also available on the Plan's website www.pearson-pensions.com.

The next actuarial valuation is being carried out as at 1 January 2024.

It has been agreed by the Trustee and Pearson plc that from 1 January 2023, for a period of 12 months, the full amount of the future service employer contributions due to the Plan, in respect of members of the DB Sections and the DC Sections, will be offset against the surplus assets in the DB Sections of the Plan. It is expected that the Plan will maintain its funding target on a technical provision basis over this period.

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TRUSTEE'S REPORT (continued)

Pension increases and deferred revaluation of the Defined Benefit Sections

The Rules of each section specify the basis for pension increases. For certain sections, pensions are increased in line with terms agreed when formerly independent schemes for those members were merged with the Plan.

In general, for pensions in respect of service on or before 5 April 1997 in excess of the Guaranteed Minimum Pension (GMP), annual pension increases are based on either a fixed increase of 3% per annum or an increase based on changes in the Retail Price Index (RPI) limited to a maximum increase of 3% per annum. However, the provisions for increases vary between sections of the Plan, for instance in some cases the Trustee may have discretion to pay increases by reference to an index other than RPI. Also, in the Thames Television ("Thames") Section the increase is based on RPI for such time as that index is published and not materially changed with a minimum annual increase of 4%, and in the Extel Section there is an uncapped RPI increase.

For pensions in respect of service after 5 April 1997, the annual increases are generally subject to a minimum of RPI up to 5%. Again, as noted above, there are exceptions including the Thames and Extel Sections and in some cases the Trustee has discretion to pay increases by reference to an index other than RPI. Members' pensions in payment for a period of less than one year at the increase date receive a pro-rated increase calculated to reflect the actual period of retirement up to the increase date. In circumstances where the RPI or CPI is negative, a pension increase of nil is awarded.

In general, GMP earned before 6 April 1988 is not increased by the Plan and GMP earned between 6 April 1988 and 5 April 1997 is increased in line with the lower of the increase in the Consumer Price Index (CPI) and 3%. GMPs ceased to accrue from 6 April 1997.

Thames Section members receive a temporary supplement pension between the age of 60 and state retirement age. This is increased on 1 October each year. The increase is based on the year-on-year increase in the basic state pension.

During November 2021, the annual review of pensions in payment was carried out. On 1 January 2022, the Trustee awarded pension increases in line with the Rules based on the movement in headline RPI in the year to September 2021 of 4.9% and CPI of 3.1% (pro-rated as described above). Nine discretionary increases were awarded as at 1 January 2022 for the nine TQ Section pensioners who left service before 6 April 1989 at the rate of 4.9% on their entire pension (1 January 2021: 4%). On 1 October 2022, the Trustee awarded a 3.1% increase (based on the increase in basic state pension in April 2021 to April 2022) to the temporary supplementary pension element of Thames Section pensions.

During October 2022, an annual review of pensions in payment was carried out. On 1 January 2023, the Trustee awarded pension increases in line with the Rules based on the movement in headline RPI in the year to September 2022 of 12.6% and CPI of 10.1% (pro-rated as described above). Nine discretionary increases were awarded as at 1 January 2023 for the nine TQ Section pensioners who left service before 6 April 1989 at the rate of 12.6% on their entire pension.

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TRUSTEE'S REPORT (continued)

Pension increases and deferred revaluation of the Defined Benefit Sections (continued)

Additional discretionary increases were awarded for pensioners aged over 66, and all ill-health pensioners of any age, with pensions of less than £10,000 p.a. The discretionary increase is structured to raise the capped elements of the members' guaranteed pensions (excluding GMP unless Plan Rules say otherwise) to 5%.

Deferred pensions have been revalued in accordance with applicable legislation or such higher amount as required under the Rules.

In 2023, the Plan carried out an analysis of the members who took early retirement in Q4 2022 who could potentially receive an uplift due to high inflation. The affected members have been contacted and changes to their pension and any arrears were applied to the April 2023 payroll.

Transfers out

Where individual members of the Plan have requested transfer values to other registered pension arrangements these were calculated and verified in the manner prescribed by section 97 and 101I of the Pension Schemes Act 1993 and subsequent amendments. Similarly, cash transfer sums have been calculated and verified in the manner prescribed by section 101AF of the Pension Schemes Act 1993 and subsequent amendments.

Transfer values and cash transfer sums reflect the various pension increases guaranteed under the Rules and they do not make any allowance for the value of discretionary benefits. In addition, with the exception of an allowance for the option for certain members of the Paramount Section to draw their benefits from age 60 without reduction, no allowance is made for member options.

Following the triennial valuation, a review of assumptions used for calculating transfer values and cash transfer sums was completed in March 2022 by the Plan Actuary, XPS. These included changes to demographic assumptions and the discount rate used for DB sections. From October 2022, an allowance was included in the transfer value basis to allow for GMP equalisation and short-term inflation.

Preparation and audit of the financial statements

The Trustee confirms that the financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Contact information

Enquiries concerning the constitution and structure of the Plan should be addressed to:

CEO of Pearson Pension Trustee Services Limited
The Pearson Pension Plan
P.O. Box 9519
Sherborne
DT9 9EN

Or alternatively, enquiries can be sent directly to the Directors of the Trustee, and the CEO of Pearson Pension Trustee Services Limited via the Plan website at www.pearson-pensions.com/contact_us

Enquiries concerning individual member benefits should be addressed to:

Email: pensions.helpline@pearson.com
The Pearson Pension Plan
P.O. Box 9519
Sherborne
DT9 9EN
Telephone: 0800 781 1378

Enquiries in connection with the payment of pensions should be addressed to:

Email: pensionerpayroll@pearson.com
The Pearson Pension Plan
Hartshead House
2 Cutlers Gate
Sheffield
S4 7TL
Telephone: 0800 781 1378

In addition, any queries to the Trustee, CEO of Pearson Pension Trustee Services Limited and the Plan can also be made online via the Plan's website www.pearson-pensions.com.

The Trustee has adopted a procedure for the resolution of internal disputes as required by the Pensions Act 1995. A copy of the procedure is available from the Plan using the contact details above, and also online via the Plan's website www.pearson-pensions.com.

The Trustee has responsibility for overseeing the investment arrangements of the Plan's Defined Benefit and Defined Contribution Section assets, the objectives and management of which are substantially different, and, as a consequence, have been considered separately in this report.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Statement of Investment Principles

After seeking advice from Lane Clark & Peacock LLP and consulting with Pearson Services Limited, the Trustee adopted a Statement of Investment Principles (SIP) for the Plan in accordance with section 35 of the Pensions Act 1995, which is reviewed at least annually by the Trustee. All investments since 6 April 1997 have been made in accordance with the SIP, copies of which are available from the Plan. The updated SIP at 31 May 2022 is applicable as at the signing of these financial statements and is provided on the Plan's website www.pearson-pensions.com. This also includes the default lifecycle arrangement which has been designed on the understanding that members will wish to take their funds flexibly, through income drawdown.

Socially responsible investments

The Trustee believes that the financial impact of environmental, social, governance (ESG), and climate factors should be taken into account by investment managers when making investment decisions.

The Trustee has considered how ESG and ethical factors should be taken into account in the selection, retention, and realisation of investments, given the time horizon of the Plan and its members. The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its investment managers are taking account of these issues in practice.

The Trustee does not take into account any non-financial matters (i.e., matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

The Trustee has limited influence over investment managers' investment practices where assets are held in pooled funds, but it encourages its investment managers to improve their practices where appropriate.

The Money Purchase Sections include an equity investment option as a choice for members who wish to invest in a fund focussed on ESG risks. At this time, it does not believe there are any ESG-focused investment options available that meet its needs in any asset classes other than equity but will keep this under review.

The Investment Committee (IC) proactively monitors all of the Plan's active investment managers. In addition to the usual quarterly monitoring, the active investment managers are required to attend IC meetings periodically. These Manager presentations provide an opportunity for the IC to discuss responsible investment along with other aspects of the manager's mandate and are considered an important aspect of these discussions. In addition to the above the IC also undertakes the following:

- When appointing new active investment managers, their approach to socially responsible investment and environmental, social and governance factors is incorporated into the selection process and referenced in their Investment Manager Agreements.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Socially responsible investments (continued)

- The IC reviews the Plan's responsible investment policy, typically once a year. The latest investment manager policies are also reviewed and developments in responsible investment are discussed.
- The Plan monitors whether its investment managers are signatories of the UN Principles for Responsible Investment (PRI). The IC encourages investment managers to become PRI signatories and requests explanations where they are not.

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the investment managers' general policies on stewardship, as provided to the Trustee from time-to-time, taking into account the long-term financial interests of the beneficiaries. The Trustee seeks to appoint investment managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time-to-time the Trustee reviews how these are implemented in practice.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high-quality service that meets the stated objectives, guidelines, and restrictions of the fund. However, in practice investment managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

Taskforce for Climate-Related Financial Disclosure ("TCFD")

The Plan has published a report in line with the Taskforce for Climate-Related Financial Disclosure ("TCFD") recommendations, which sets out the climate-related financial risks and opportunities that impact upon the Plan and its approach to climate-related financial disclosures. The report also demonstrates the oversight provided by the Trustee and the processes that are in place to ensure all relevant climate-related financial risks and opportunities are identified, assessed, and managed appropriately. This report can be found on the Plan website: <https://www.pearson-pensions.com/library/#governance-financial-reports>

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TRUSTEE'S REPORT (continued)

Investment Governance

The Trustee evaluates investment manager performance by considering performance over both shorter-term and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of an investment manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each investment manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

Further information relating to the Plan's investments can be found in the investment risk note on pages 64 to 70 and in the Statement of Investment Principles on pages 79 to 105.

Economic issues and Employer covenant

The UK government's announcement of the mini-budget on 23 September 2022 caused significant market volatility, particularly in the gilts, equity, illiquid assets, and sterling currency markets.

The assets under the Defined Benefit Section have been affected by these market conditions, in particular, the property and liability driven investments (LDI) funds have seen a significant fall. However, the Plan remains in surplus on the technical provisions basis as the rise in gilt yields meant that the Plan's liabilities fell slightly more. The Plan is largely de-risked and has no exposure to quoted global equity markets, therefore the impact on the investment portfolio has been mitigated relative to many UK pension plans.

The assets under the Defined Contribution Section of the Plan have been affected by the market volatility with negative growth during the year. This is in line with expectations given market conditions over the period, the bond market being mostly impacted with rising gilt yields. Longer term performance of the Plan continues to be positive.

The funding position of the Plan means that it also has a relatively low level of reliance on the Pearson Plc covenant. Pearson Plc has a strong balance sheet and in its trading update issued on 3 March 2023 it noted that 2022 has been a year of continued strategic momentum and operational execution, delivering strong financial performance and growth. It continues with its direct-to-consumer strategy with accelerating demands for digital solutions.

The Trustee has taken into account the current situation and continues to prepare financial statements on a going concern basis and there are no material uncertainties on going concern.

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TRUSTEE'S REPORT (continued)

Defined Contribution Sections

The Money Purchase 2003 Section was introduced on 1 January 2003, and the Auto Enrolment Section was introduced on 1 September 2013 (together with Additional Voluntary Contributions known as the 'Defined Contribution Sections'). The Trustee appointed Aviva as the investment provider for the Defined Contribution Sections and members currently have a choice of investment funds from the Aviva portfolio or may choose the default lifecycle arrangement.

The Trustee's objective for the Defined Contribution Sections is to make available to members an appropriate range of investment options to which members and the Company will contribute in order to provide each member with a fund which will be used to secure their benefit at retirement.

Defined Contribution assets

The value of assets held with Aviva for members in these sections, including AVCs within these funds at 31 December 2022 was as follows:

<u>Fund</u>	<u>MP03 & AE Market Value</u>	<u>AVC Market Value</u>	<u>Total Market Value</u>	
	£'000	£'000	£'000	%
Blended global equity fund	423,314	6,022	429,336	67.8
Blended multi-asset fund	76,804	1,662	78,466	12.4
Short duration credit fund	30,401	701	31,102	4.9
Blended index linked gilt fund	27,120	819	27,939	4.4
BlackRock world (ex-UK) equity index fund	20,788	2,106	22,894	3.6
Annuity targeting fund	10,619	122	10,741	1.7
BlackRock UK equity index fund	9,867	717	10,584	1.7
BlackRock institutional sterling liquidity fund	7,525	1,534	9,059	1.5
Jupiter ecology fund	4,977	266	5,243	0.8
CT Pensions property fund	2,566	121	2,687	0.4
BlackRock over 15 year corporate bond index tracker	2,333	196	2,529	0.4
BlackRock over 15 year gilt index fund	1,396	58	1,454	0.2
MFS Meridian global equity fund	1,167	13	1,180	0.2
CT responsible global equity fund	201	3	204	0.0
	619,078	14,340	633,418	100.0

Members have the option to invest separately from the main Defined Contribution Sections to secure additional benefits by electing to pay additional voluntary contributions (AVCs). The above table includes AVC funds held by Aviva.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Defined Contribution assets (continued)

The aggregate amounts of AVC investments are as follows:

	2022	2021
	£'000	£'000
Aviva	14,340	16,091
Clerical Medical Investment Management	206	212
Prudential	143	149
Other insurance companies	173	167
	<u>14,862</u>	<u>16,619</u>

Default lifecycle arrangement

For those members of Defined Contribution Sections that do not choose to make active investment choices, the Plan provides a default lifecycle arrangement, which aims to ensure that members funds are invested into appropriate funds based on the number of years until their selected retirement date. The vast majority of DC members are invested through the default lifecycle arrangements.

The default lifecycle option (Drawdown lifecycle) involves a phased switching process whereby funds are initially invested in the Blended global equity fund. Starting 15 years from retirement, this holding is gradually switched to a combination of the Blended global equity fund, Blended multi-asset fund, Blended index linked gilt fund and Short duration credit fund.

The Plan's BlackRock sterling liquidity fund is also deemed a default for governance purposes from May 2020, following the redirection of all property fund contributions, due to a suspension of the Columbia Threadneedle (formerly Threadneedle) Pensions Property Fund. A few members still remain in the fund as at 31 December 2022.

The other lifecycle arrangements available to members are the Cash lifecycle and Annuity lifecycle both of which invest in the same funds as the Drawdown lifecycle until 5 years from retirement.

In October 2021, the investments under the DC lifecycles were amended, the BlackRock over 15 year corporate bond index tracker was replaced by the Short duration credit fund and for the Annuity lifecycle the Blended index linked gilt fund was replaced by BlackRock annuity targeting fund. A new self-select ESG fund was also introduced, the Columbia Threadneedle (formerly BMO) responsible global equity fund, and the Jupiter ecology fund was closed to new entrants.

Further details of the default lifecycle arrangements can be found within the Chairman's Defined Contribution Governance Statement, on page 24.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Administration and investment management fees

The administrative expenses associated with the operation of the Defined Contribution Sections are incurred by the Defined Benefit Sections and disclosed within the Defined Benefit Sections of the Fund Account on page 45. The Plan Actuary at the time has incorporated an estimation of the administrative costs, the life assurance provision, and the RST underpin associated with this section within the funding arrangements for the Plan.

The Trustee continues to regularly review the member borne costs and charges charged by Aviva to obtain good value for members invested in Money Purchase funds.

The member borne charges for the Plan's default lifecycle arrangement continue to be substantially below the government charge cap of 0.75% per annum for default investment funds in automatic enrolment schemes, details of costs and charges can be found on pages 30 to 32.

THE PEARSON PENSION PLAN
TRUSTEE'S REPORT (continued)

Defined Contribution Sections performance

The Trustee monitors the performance of the funds provided by Aviva with the assistance of Lane Clark & Peacock LLP (LCP). The Investment Committee investigates significant departures from benchmarks with investment managers. Details of fund performance are set out in the table below:

Fund Name	1-year to 31 December 2022			5-years (p.a.) to 31 December 2022		
	Fund Performance	Benchmark Performance	Difference	Fund Performance	Benchmark Performance	Difference
	%	%	%	%	%	%
Passive funds						
BlackRock over 15 year corporate bond Index fund	(34.6)	(34.4)	(0.2)	(4.5)	(4.4)	(0.1)
BlackRock world ex UK equity index fund	(9.4)	(9.4)	0.0	8.8	8.7	0.1
BlackRock UK equity index fund	(0.5)	(0.4)	(0.1)	2.6	2.8	(0.2)
BlackRock over 15 Year gilt Index fund	(40.9)	(40.1)	(0.8)	(7.0)	(6.7)	(0.4)
Blended global equity fund*	(1.5)	(1.9)	0.4	N/a	N/a	N/a
Blended index linked gilt fund	(17.0)	(16.9)	(0.1)	(1.6)	(1.4)	(0.2)
Annuity targeting fund	(18.6)	(18.4)	(0.2)	(1.9)	(1.8)	(0.1)
Active funds						
Blended multi-asset fund**/****	(11.9)	5.8	(17.7)	2.3	4.9	(2.6)
CT Pensions property fund	(10.8)	(9.5)	(1.3)	2.7	2.9	(0.2)
Jupiter ecology fund	(12.6)	(16.0)	3.4	6.7	17.9	(11.2)
MFS Meridian global equity fund**	(8.1)	(4.8)	(3.3)	7.8	11.7	(3.9)
BlackRock Sterling liquidity fund****	1.3	1.4	(0.1)	0.6	0.5	0.1
CT responsible global equity fund	(13.2)	(7.4)	(5.8)	9.6	9.2	0.4
Short duration credit fund**/***/****	(6.8)	2.9	(9.7)	N/a	N/a	N/a

Source: Aviva, underlying managers. Returns are shown net of annual management charge ("AMC"). 5 year performance is annualised.

*The Blended global equity fund was only launched 8 March 2018 so longer-term performance is not available. The slight deviation of this blend's performance from the composite benchmark over the longer term is due to small price swings of the underlying funds and tax advantage that the Fund's underlying Aquila Life funds have over the indices they track (likely from non-standard tax reclaim opportunities), and is for the most part, within reasonable tracking tolerances.

** These funds are shown relative to their performance targets rather than their respective benchmarks.

The performance and target of the Blended multi asset fund reflect the changes to the underlying asset allocation implemented on 30 June 2020.

*** The Short duration credit fund was launched on 12 September 2019 so longer-term performance is not available.

**** The benchmarks/targets of these funds are currently based on SONIA, either wholly or partly, but were previously based on LIBOR until it was discontinued at the end of 2021. It is noted that a synthetic LIBOR continues to be published and is based on SONIA rates plus fixed historical spreads, ranging from 0.03% to 0.28%

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Defined Benefit Sections

Following the 2021 valuation, the Plan remains fully funded on a technical provision basis.

Investment objective and strategy

The Trustee's objectives for the Defined Benefit Sections are:

- An overall objective to invest the Plan's assets in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Plan into the future. This includes, where possible and agreed with the Principal Employer, discretionary increases to pensions in payment in excess of the guarantees in the Plan Rules.
- A shorter-term objective of endeavouring to invest the Plan's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Plan's liabilities.

Asset allocation for the Defined Benefit Sections is considered regularly by the Trustee and reviewed in detail following each actuarial valuation. The Trustee divides the assets of the Plan into two sections; the Insurance Portfolio and the Main Portfolio which are composed as follows:

- The **Insurance portfolio** consists of assets which are held in the form of insurance contracts matching a portion of the liabilities of the Plan. The insurer pays the Plan an amount equal to the pension payment in respect of the members underlying the policy. These insurance contracts are assets of the Plan and the pension liability remains within the Plan.
- The **Main portfolio** consists of all Plan assets outside the Insurance portfolio. The main portfolio is composed of liability matching and return seeking assets.
 - Liability matching assets are assets which produce cash flows that can be expected to match the cash flows for a proportion of the membership. The matching assets include bonds, inflation linked property and infrastructure. Liability driven investment is a key component of the Plan's matching assets as it allows it to match a higher proportion of the expected liability cash flows.
 - Return seeking assets are invested to generate the returns needed to provide the remaining expected cash flows for the beneficiaries. The return seeking assets are formed of an allocation to property, private equity, trade finance and infrastructure.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Strategic objectives of the Plan

Given the Plan's strong funding position, the Plan's primary focus has been to invest in matching assets and control risk through the allocation of investments. The resulting strategy is intended to lead to a low probability that the Plan will require further contributions from the Plan's sponsor.

In line with this strategy, in November 2015 the Plan implemented a liability driven investment mandate, for which a Qualifying Investor Alternative Investment Fund (QIAIF) was established, managed by a subsidiary of Legal & General Investment Management (LGIM). The objective of this fund is to reduce interest rate and inflation risks, using accurate cash flow matching and risk control.

Continuing with this strategy, and additionally to hedge longevity risk, the Plan purchased two separate buy-in policies with Aviva Life & Pensions UK Limited (Aviva Life) and Legal and General Assurance Society Limited (LGAS) in the second half of 2017. An additional number of pensioners were bought in to the LGAS buy-in contract in February 2019. These policies were purchased to ensure the Plan has sufficient cashflows to match the benefit payments of the insured members.

Defined Benefit assets

The Plan's asset allocation of the Defined Benefit Sections at 31 December 2022, which is in line with the strategy as defined in the SIP, is shown in the investment risk table on page 64:

The Plan's assets are divided between a number of investment managers, a large proportion of which is allocated to liability driven investment. The Trustee determines investment guidelines for each investment manager and places restrictions on the personnel who can authorise the transfer of cash and the bank accounts to which funds can be transferred. The asset allocation policy is reviewed regularly to ensure that it remains appropriate to the Plan.

During the year, the Plan's investments were managed by the professional investment managers listed on pages 1 and 2. The property investments of the Plan are held within the Pearson Pension Property Fund and managed by LaSalle Investment Management, save for the holding in CB Richard Ellis (ex UK) alpha fund.

The Trustee employs Bank of New York Mellon (BNY Mellon) as the Plan's global custodian and monitors its ongoing suitability on a periodic basis. All professional custodian companies, general partners and solicitors listed on pages 1 and 2, hold secure title to the investments managed by each investment manager.

The investment managers are remunerated by fees based on the value of the assets under their management. All of the Plan's defined benefit pooled investment vehicles, with the exception of the liability driven investment and corporate bonds, also have a performance fee built into their unit prices.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Return on Defined Benefit investments

The short-term and medium-term investment returns for the Plan's total Defined Benefit investments (excluding the insurance policies) for periods ended 31 December 2022, which LCP have calculated based on information provided by BNY Mellon, were:

	<u>One year</u>	<u>Three years</u>
	%	% p.a.
The Plan actual	(27.6)	(6.2)
The Plan benchmark	(24.1)	(4.9)

The Plan's return seeking assets achieved a return of 4.7% over the last year, compared with a benchmark return of 8.3%. The return seeking assets performance below the benchmark is mainly attributable to infrastructure funds and pooled property funds. The liability matching assets return over the year was -30.2% compared to a benchmark return of -30.4%. The majority of the liability matching assets are index linked and are designed to match liability cashflow movements.

Investment returns were sharply negative in the second half of 2022, mostly due to the significant volatility caused by the gilt crisis, but this was matched by a fall in the Plan's liability value as gilt yields were higher, meaning that there was a negligible impact on the overall funding level.

The 'Plan actual' returns are calculated on a time-weighted basis, considering the change in value of assets and the weightings of each asset class over the period, taking account of cash flows.

THE PEARSON PENSION PLAN

TRUSTEE'S REPORT (continued)

Statement of responsibilities with respect to the financial statements and the Schedule of Contributions

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries, and certain other parties, audited financial statements for each Plan year which:

- show a true and fair view of the financial transactions of the Plan during the year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- contain the information specified in The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.
- are prepared on a going concern basis unless it is inappropriate to presume that the Plan will not be wound up.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis. The Trustee is also responsible for making available certain other information about the Plan in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is, prepared, maintained, and from time-to-time revised, a Schedule of Contributions showing the rates of contributions payable to the Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for adopting risk-based processes to monitor whether contributions are made to the Plan by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by law to consider making reports to The Pensions Regulator and the members.

The Trustee also has a responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably appropriate to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

For and on behalf of Pearson Pension Trustee Limited.

J A B Joll
Chairman
10 July 2023

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT

1. Introduction

The Plan is required to produce a yearly statement to describe how governance requirements have been met in relation to:

- the investment options in which members' funds are invested (this means the default arrangements and other funds members can select or have assets in, such as "legacy" funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- the net investment returns for each investment option members were able to select during the Plan year;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

This statement has been prepared in accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and covers the period 1 January 2022 to 31 December 2022.

2. The default investment arrangements

The Plan has the Auto Enrolment ("AE") section, which is used as a Qualifying Scheme for auto-enrolment, and the Money Purchase 2003 ("MP03") section, which is not. Together these are the Defined Contribution ('DC') sections of the Plan ("DC Sections"). Members who do not opt in to or are not eligible for the MP03 section are auto-enrolled into the AE section. Members of both sections are given the same investment choices and have the same default investment strategies.

Some members of the DC Sections of the Plan make their own investment choices from the range of investment options made available by the Trustee, but those who do not make an explicit choice regarding the investment of their funds are placed automatically into a default arrangement. After taking advice, the Trustee decided to make the default arrangement a lifecycle strategy, which means that members' assets are automatically moved between different investment funds within the default lifecycle arrangement as they approach their target retirement date.

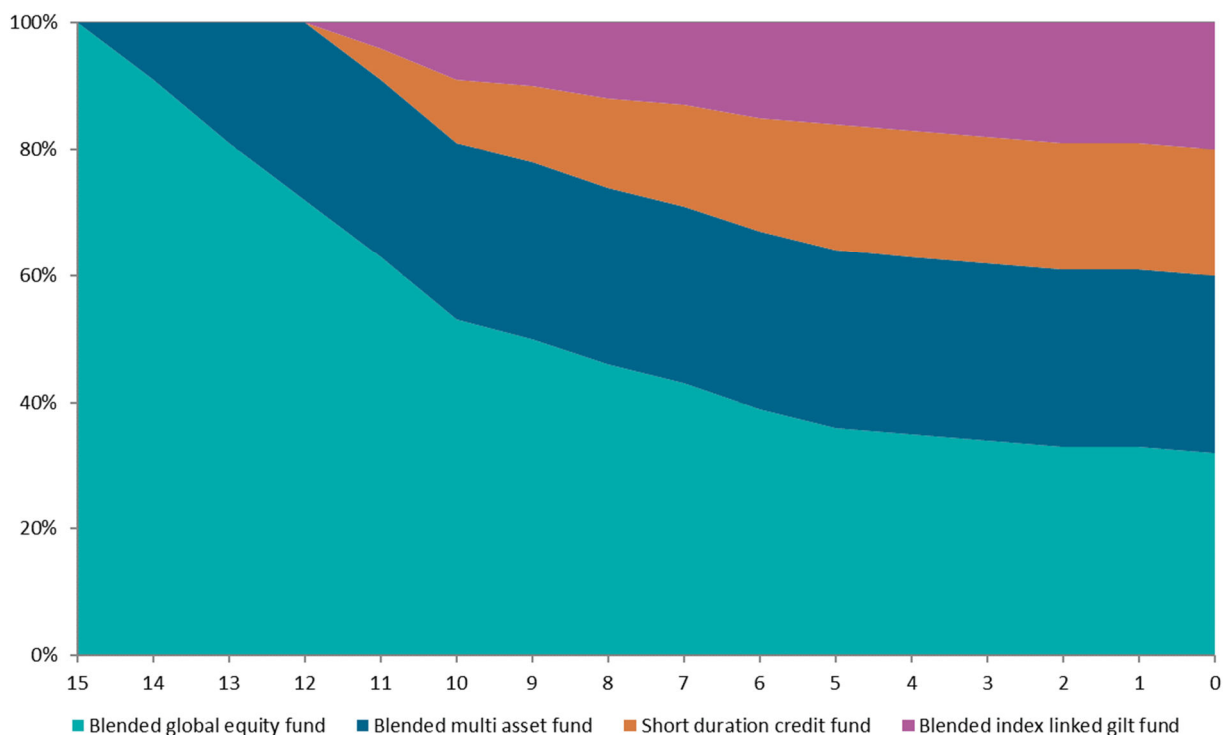
There are three separate default lifecycle strategies: the 'Drawdown lifecycle', the 'Cash lifecycle' and the 'Annuity lifecycle'. Details of how member contributions are invested into the different default lifecycle strategies are set out below.

Where an explicit choice has not been made by the member, contributions are invested into the 'Drawdown lifecycle'. The Drawdown lifecycle is also the default arrangement for members who make Additional Voluntary Contributions ("AVCs"). This applies to all existing members that have assets invested in the MP03 and AE sections that are targeting drawdown and also new members. This does not apply, however, to AVC benefits where the member has no assets already invested in the Drawdown lifecycle through the MP03 or AE sections, or is a defined benefit ("DB") member with AVC benefits, but no assets in these aforementioned DC sections.

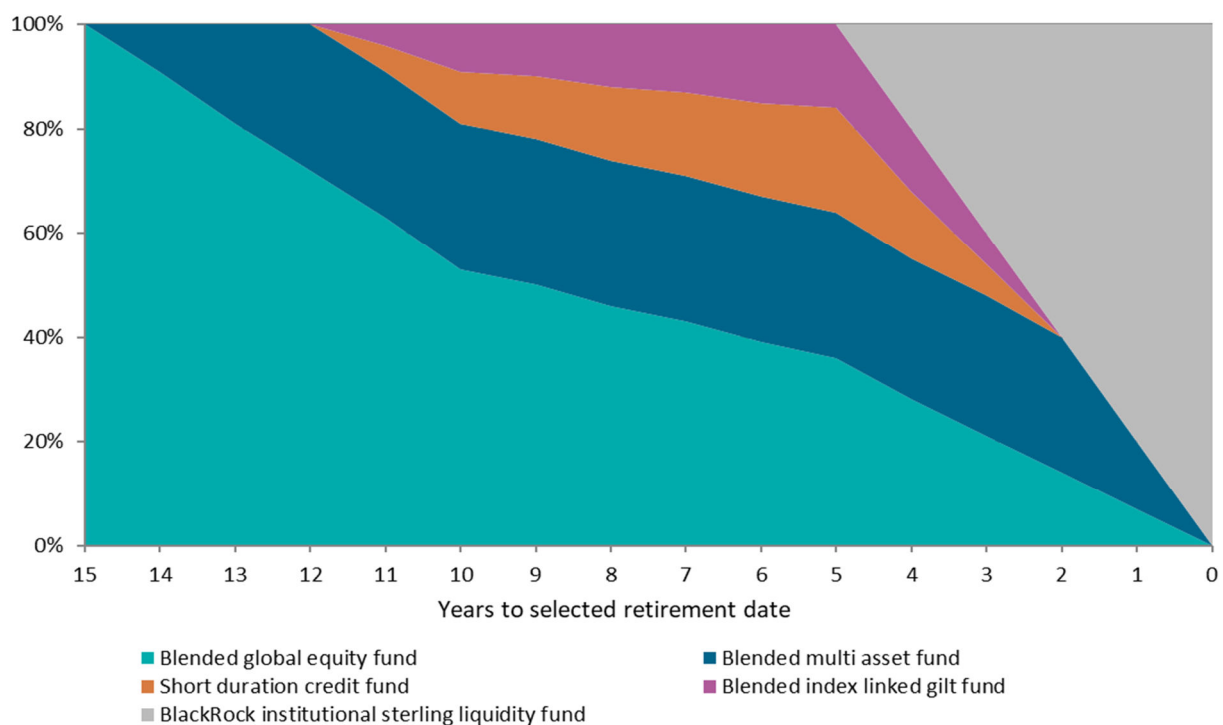
THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

The asset allocations in the years leading up to retirement for the Drawdown lifecycle are shown below:



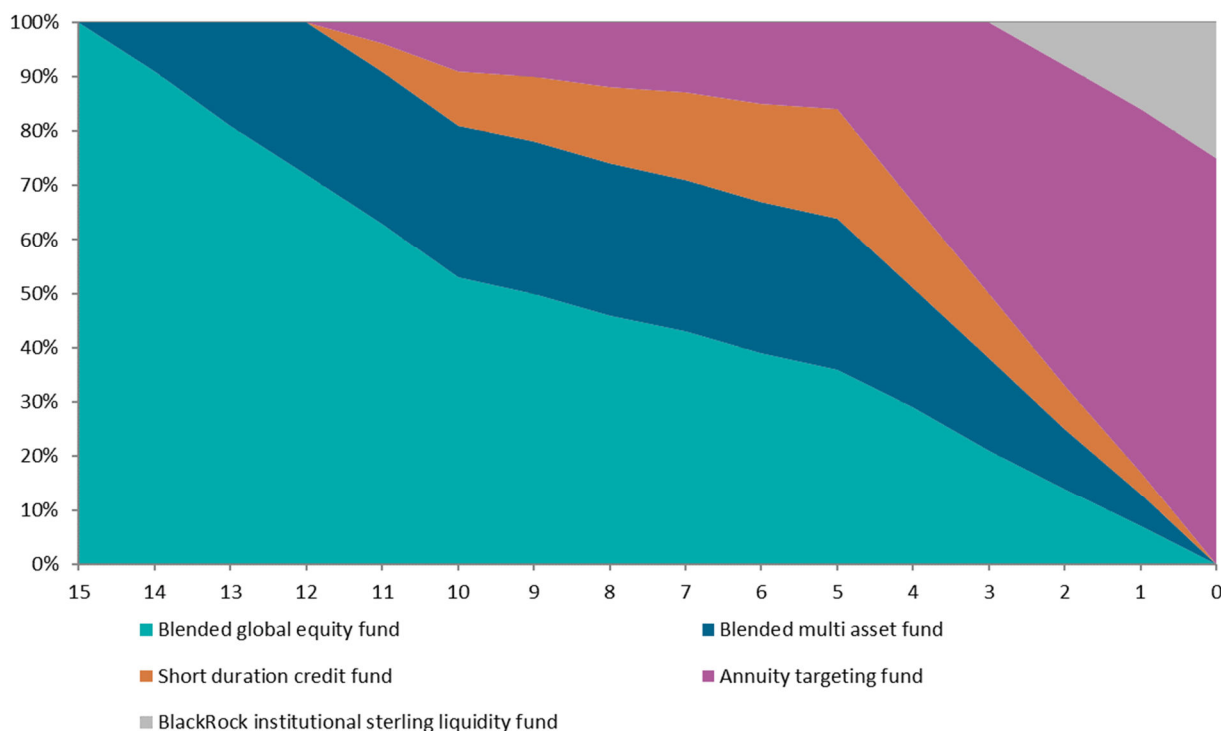
The Cash lifecycle is the default lifecycle option for existing members with AVC benefits within the Plan who do not have assets invested in the Drawdown lifecycle, or are DB members with AVC benefits who do not have assets invested in the MP03 or AE sections of the Plan. The strategy is also open for members to select if they wish to. The asset allocations in the years leading up to retirement for the Cash lifecycle are shown below:



THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

The Plan also has a legacy default lifecycle arrangement, the 'Annuity lifecycle', into which the assets of a number of members close to retirement were transferred into as part of the last investment strategy review. The strategy is also open for members to select if they wish to. The asset allocations in the years leading up to retirement for the Annuity lifecycle are shown below:



The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default lifecycle arrangements.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' ("SIP"), which can be found on pages 79 to 105.

The objective of the default lifecycle arrangement, as stated in the SIP, is as follows:

"The objective of the main default option for the DC sections, the drawdown lifecycle, is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement."

The objectives of all of the default lifecycle arrangements, including the cash default arrangement and the annuity default arrangements, as stated in the SIP, are as follows:

"The aim of all the default lifecycle strategies is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to equity and diversified growth funds and then to gradually diversify their investments in the years approaching retirement, in order to reduce volatility while still providing suitable exposure to growth assets. The asset allocation throughout the default lifecycle strategies and the phasing of the gradual switching of investments takes into account members' greater capacity for risk early on and reduced capacity for risk in later years."

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

In the initial growth phase, the above lifecycle options (including the legacy default, the Annuity Lifecycle) are invested to target a return significantly above inflation, and then in the 15 years before retirement, they switch gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members wishing to access drawdown (in the case of the Drawdown Lifecycle), take their pot as cash (the Cash Lifecycle) or purchase an annuity at retirement (Annuity Lifecycle).

The default lifecycle arrangements are described on page 17, and each of the asset allocation tables can be found at <https://www.pearson-pensions.com/library/#booklets>.

The Trustee considers these approaches to be in the best interest of relevant members. The default lifecycle arrangements meet the requirements for social, environmental, and governance considerations set out in the SIP.

The BlackRock sterling liquidity fund is also considered to be a default investment strategy due to the redirection of member contributions between May 2020 and October 2020 without explicit consent during the temporary suspension of dealing of the Columbia Threadneedle (formerly Threadneedle) Pensions property fund. The aims and objectives of the strategy are to maximise current income consistent with the preservation of capital and liquidity through the maintenance of a portfolio of high-quality short-term "money market" instruments and to achieve an investment return that is in line with its benchmark.

On a quarterly basis, the performance of the funds after charges (which can be found on page 19) comprising the default arrangements are reviewed by the Investment Committee. Throughout the year ended 31 December 2022, investment returns for passive funds have generally tracked their respective benchmark and have performed in accordance with their stated objectives as set out in the SIP. The performance of the active funds within the lifecycle arrangements has been more varied, which is expected as the benchmark is less likely to be an exact match for the fund given the use of active management. Where performance is not in line with benchmarks or objectives, the Investment Committee has investigated the deviation with the Plan's investment consultants and investment managers in order to establish if any further action is necessary. The reviews that took place during the year concluded that the default lifecycle arrangements were performing broadly as expected, although the unusual market conditions meant that in cash terms, members in the pre-retirement phase of the default lifecycle would have seen the value of their pots fall due to the rise in inflation and interest rates. The same was true of the Annuity lifecycle, though any drop in fund value would have been broadly matched by improved annuity rates.

The default lifecycle arrangements and self-select funds are formally reviewed to assess their ongoing suitability, including the default lifecycle arrangement's investment strategy at least every three years or immediately following any significant change in investment policy or the Plan's membership profile. The default lifecycle and self-select fund range were not formally reviewed during the period covered by this Statement. The last review took place over the course of several meetings during 2020 and 2021, from 10 June 2020 to 24 March 2021. Following this review, several enhancements were made to the default lifecycles with effect from 27 October 2021.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

The Trustee concluded in this review that it was comfortable that all default and self-select options remain appropriate subject to the changes agreed being implemented. However, performance will be kept under review in light of economic and financial market conditions.

The next full triennial review of the investment arrangements started in March 2023. The Trustee has reviewed the membership demographics of the Plan and will be considering options to enhance the default strategy, including improving environmental, social, and governance ("ESG") integration.

3. Core financial transactions

The Trustee has a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Plan, transfers between different investments within the Plan and payments to and in respect of members) relating to the DC Sections are processed promptly and accurately.

The Trustee delegates responsibility for this to the pensions team and the Plan's DC provider, Aviva. The agreement the Trustee has in place with Aviva incorporates specific service level agreements ("SLAs") which include targets for the accurate and timely processing of core financial transactions. The Trustee monitors the performance against these SLAs via quarterly reports.

Aviva's SLA performance over the year to 31 December 2022 was broadly in line with or above the agreed target of 95% (94.6%, 98.4%, 98.4% and 96.1% from Q1 to Q4 2022, respectively).

The pensions team and Aviva have set up various controls to ensure the accuracy of processing core financial transactions, for example:

- a reconciliation to ensure all contributions were processed using monthly Aviva reporting data;
- a quarterly reconciliation of the Plan's membership transactions to Aviva records; and
- an annual reconciliation of membership using data supplied from Aviva against membership held on the pension administration database.

The Trustee has received assurance from Aviva via management reporting and oral assurance that they have adequate internal controls, including review procedures, and inbuilt automated controls within their systems, to ensure that core financial transactions relating to the Plan were processed promptly and accurately during the year. Any issues identified by the Trustee as part of its review processes (set out below) would be raised with the administrators immediately, and steps would be taken to resolve the issues.

The processes the Trustee has in place for monitoring of core financial transactions are as follows:

- Review of quarterly SLA reporting from Aviva, covering reporting on each type of transaction for the number of cases processed, and how many days each has taken;

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

- Review of quarterly management reporting against agreed SLAs from management, detailing what activities have taken place, and what, if any, exceptions have occurred; and
- The Trustee has appointed the Audit and Risk Committee to review the Breaches Register half yearly, where any statutory or legal breaches would be reported.

Based on its review process, the Trustee is satisfied that over the period covered by this statement:

- Both the Plan and the DC provider were operating appropriate procedures, checks and controls, and operating within the agreed SLAs;
- There have been no material administration errors in relation to processing core financial transactions; and
- Core financial transactions have been processed promptly and accurately to an acceptable level during the Plan year.

4. Member-borne charges and transaction costs

Regulations also require the Trustee to make an assessment of ongoing charges borne by members of the DC Sections and the extent to which those charges and costs represent good value for members.

These are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges include administration costs, since these are met by the members.

The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this Statement, the transaction costs shown are those incurred when the Plan's investment managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by Aviva (the Plan's provider), and by the Plan's legacy AVC providers. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (i.e., we would not expect transaction costs to be negative over the long term).

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

4.1 Default arrangements

The default arrangement for the Plan is the **Drawdown lifecycle** arrangement. For the period covered by this Statement, annualised charges and transaction costs are set out in the following table:

Years to selected retirement date (SRA)	TER	Transaction costs
15 or more	0.26%	0.00%
10	0.37%	0.11%
5	0.36%	0.13%
At retirement	0.36%	0.13%

For the period covered by this Statement, annualised charges and transaction costs for the **Cash lifecycle** arrangement are set out in the following table:

Years to SRA	TER	Transaction costs
15 or more	0.26%	0.00%
10	0.37%	0.11%
5	0.36%	0.13%
At retirement	0.14%	0.01%

The **Annuity lifecycle** arrangement is a legacy lifecycle arrangement and an alternative option for members. For the period covered by this Statement, annualised charges and transaction costs are set out in the following table:

Years to SRA	TER	Transaction costs
15 or more	0.26%	0.00%
10	0.37%	0.11%
5	0.36%	0.13%
At retirement	0.17%	0.05%

The TER of the **BlackRock sterling liquidity fund**, which is also considered a default arrangement, is 0.14%, with transaction costs over the period covered by this statement at 0.01%.

The TERs for all of these arrangements are much lower than the maximum allowed of 0.75% and the Trustee is satisfied that it has negotiated good terms for members taking account of the expected growth in the size of the DC Sections.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

4.2 Self-select options

In addition, there is a range of twelve separate funds which may be chosen by members as an alternative to the default lifecycle arrangements. These funds allow members to take a more tailored approach to managing their own pension investments. The Jupiter ecology fund was closed to new members on 27 October 2021, however, members with an existing investment were allowed to remain invested. The Annuity targeting fund is a blended fund used as part of the annuity lifecycle, however, this fund is not available for members to self-select on a standalone basis.

Total expense ratios ("TERs") for each fund for 2022 are shown below, but current charges can also be found on the Plan's website at www.pearson-pensions.com/library. The underlying funds used within the main default arrangement are shown in bold.

Fund Name	TER 2022	Total transaction costs 2022
Blended global equity fund	0.26%	0.00%
BlackRock UK equity index fund	0.19%	0.08%
BlackRock world ex UK equity index fund	0.19%	0.02%
Jupiter ecology fund	0.89%	0.01%
Columbia Threadneedle Pensions property fund*	0.84%	0.24%
Blended index linked gilt fund	0.18%	0.03%
Annuity targeting fund	0.18%	0.06%
BlackRock over 15 year corporate bond index fund	0.19%	0.13%
BlackRock over 15 year gilt index fund	0.19%	(0.02%)
BlackRock institutional sterling liquidity fund	0.14%	0.01%
Blended multi asset fund	0.70%	0.33%
MFS Meridian global equity fund	0.74%	0.04%
Short duration credit fund	0.21%	0.15%
Columbia Threadneedle responsible equity fund*	0.74%	0.16%

*The names of these funds changed during the Plan year due to merger activity of the manager. There have been no changes to the underlying funds or investments.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

Legacy AVC fund charges and transaction costs

The following funds were available to members as legacy options for AVCs. These options are now closed to future contributions.

Fund Name	TER 2022	Total transaction costs 2022
Prudential – cash accumulation with-profits	1.24%	0.17%
Prudential – deposit fund	0.00%	0.00%
Clerical Medical – with-profits fund	0.50%	0.26%
Clerical Medical – balanced fund	0.50%	0.30%
Clerical Medical – cash fund	0.50%	0.02%
Clerical Medical – far eastern fund	0.50%	0.60%
Clerical Medical – UK equity tracker fund ¹	0.50%	0.08%
Clerical Medical – ethical fund ²	0.50%	0.05%
Royal London – crest secure fund	1.45%	0.00%
Phoenix Life – managed pension fund ³	-	-
Phoenix Life – with-profits fund ⁴	1.18%	0.04%

¹ Transaction cost shown for the Clerical Medical UK equity tracker fund covers the year to 31 October 2022.

² Transaction cost shown for the Clerical Medical ethical fund covers the year to 30 November 2022.

³ Phoenix Life has not yet provided data for its managed pension fund.

⁴ TER and transaction cost shown for the Phoenix Life – with-profits fund covers the year to 31 December 2021.

Whilst TER and transaction cost data for the majority of the AVC funds available to members have now been obtained, the Trustee will continue to work with its advisers to source the most up to date transaction costs information for the remaining Phoenix Life fund. The Trustee's advisers will continue to liaise with the AVC providers to attempt to obtain this information by requesting this information on a regular basis with the aim of including it in next year's statement.

4.3 Illustration of charges and transaction costs

The illustrations show how different costs and charges can impact the pension pot over certain periods of time, based on a selection of investment funds. Statutory guidance from The Pensions Regulator has been taken into account in the preparation of these illustrations. Under each default lifecycle arrangement or investment fund, there are two columns. The first shows the projected pension values assuming no charges are taken. The second shows the projected pension values after costs and charges are taken. By comparing these scenarios, it is possible to identify how much the charges over the years will affect the pension value.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges (i.e., the TER) and an allowance for transaction costs.

The transaction cost figures used in the illustration are those provided by the managers over the past five years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past five years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Plan year.

The illustration is shown for the Drawdown lifecycle, since this is the arrangement with the most members invested in it, the two alternative default lifecycles (the Cash lifecycle and the Annuity lifecycle) and two funds from the Plan's self-select fund range. The two self-select funds shown in the illustration are:

- the fund with highest annual member borne costs (TER plus Plan Year transaction costs) – this is the Columbia Threadneedle pensions property fund; and
- the fund with lowest annual member borne costs – this is the BlackRock sterling liquidity fund, which is also a legally in forced default investment option.

Illustration of effect of costs and charges for typical funds within the Plan

Projected pension pot in today's money

Years invested	Default option (Drawdown lifecycle)		AVC default option (Cash lifecycle)		Legacy default option (Annuity lifecycle)	
	Before costs £	After costs £	Before costs £	After costs £	Before costs £	After costs £
1	£3,100	£3,100	£3,100	£3,100	£3,100	£3,100
3	£7,200	£7,100	£7,200	£7,100	£7,200	£7,100
5	£11,500	£11,400	£11,500	£11,400	£11,500	£11,400
10	£23,200	£22,800	£23,200	£22,800	£23,200	£22,800
15	£36,500	£35,700	£36,500	£35,700	£36,500	£35,700
20	£51,500	£49,900	£51,500	£49,900	£51,500	£49,900
25	£68,400	£65,900	£68,400	£65,900	£68,400	£65,900
30	£86,100	£81,600	£86,100	£81,600	£86,100	£81,600
35	£101,700	£94,700	£101,700	£94,700	£101,700	£94,700
40	£116,800	£106,900	£109,600	£101,100	£110,100	£101,600

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

Projected pension pot in today's money

Years invested	Default option (BlackRock sterling liquidity fund)		Columbia Threadneedle pensions property fund	
	Before costs £	After costs £	Before costs £	After costs £
1	£3,000	£3,000	£3,100	£3,000
3	£6,700	£6,700	£7,000	£6,900
5	£10,300	£10,200	£11,200	£10,800
10	£18,800	£18,600	£22,000	£20,800
15	£26,600	£26,300	£33,600	£31,000
20	£34,000	£33,400	£46,200	£41,500
25	£40,700	£40,000	£59,700	£52,200
30	£47,000	£46,000	£74,300	£63,200
35	£52,800	£51,500	£90,000	£74,500
40	£58,200	£56,600	£107,000	£86,000

Notes:

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each strategy/fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £1,100. This is the approximate median pot size for active contributing members aged 25 years and younger in the MP03 and AE sections (as these members can be expected to have around 40 years to retirement)
- The projection is for 40 years, being the approximate duration that the youngest Plan member has until they reach the Plan's Normal Pension Age.
- The starting salary is assumed to be £24,000. This is the approximate median salary for active members aged 25 or younger.
- Total contributions (employee plus employer) are assumed to be 8% of salary per year. This is the median total contributions for active members aged 25 or younger.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

The projected annual returns used are as follows:

- Drawdown lifecycle: 2.5% above inflation for the initial years, gradually reducing to a return of 1.0% above inflation at the ending point of the lifecycle.
- Cash lifecycle: 2.5% above inflation for the initial years, gradually reducing to a return of 1.5% below inflation at the ending point of the lifecycle.
- Annuity lifecycle: 2.5% above inflation for the initial years, gradually reducing to a return of 1.1% below inflation at the ending point of the lifecycle.
- BlackRock sterling liquidity fund: 1.5% below inflation
- Columbia Threadneedle pensions property fund: 1.5% above inflation
- No allowance for active management outperformance has been made.

Whilst these costs are important, they should not be looked at in isolation, but should be viewed within the context of the performance of the fund or funds chosen as these costs are, ultimately, reflected in the performance of the fund.

5. Investment return

This section states the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members can select or could select during the year, and in which assets relating to members were invested during the Plan year.

During the year to 31 December 2022, most managers struggled, given the challenging market conditions over the period, with inflationary pressures and rising interest rates as well as geo-political risks negatively impacting short- and longer-term returns. As a result, most of the Plan's managers delivered negative returns during the year. The Trustee continues to evaluate manager performance on a regular basis over both shorter and longer periods and will consider alternative arrangements where managers are not meeting performance objectives.

For the arrangements where returns vary with age, such as for the default strategies, returns are shown over the year for a member aged 25, 45, 55 and 60 at the start of the period the returns are shown over. The Blended global equity fund, used in the Plan's lifecycles, was only launched on 8 March 2018, so five-year performance of the lifecycles is not yet available. The Trustee plans to make five-year performance available as soon as possible.

Drawdown lifecycle net returns over period to year end 31 December 2022

Age of the member at the start of the period	1 year (%)
25	(1.5)
45	(1.5)
55	(7.7)
60	(8.4)

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

Cash lifecycle net returns over period to year end 31 December 2022

Age of the member at the start of the period	1 year (%)
25	(1.5)
45	(1.5)
55	(7.7)
60	(0.6)

Annuity lifecycle net returns over period to year end 31 December 2022

Age of the member at the start of the period	1 year (%)
25	(1.5)
45	(1.5)
55	(7.9)
60	(13.3)

Self-select fund net returns over period to year end 31 December 2022

Fund name	1 year (%)
Blended global equity fund	(1.5)
BlackRock UK equity index fund	(0.5)
BlackRock world ex UK equity index fund	(9.4)
Jupiter ecology fund	(12.6)
Columbia Threadneedle pensions property fund ²	(10.8)
Blended index linked gilt fund	(17.0)
BlackRock over 15 year corporate bond index fund	(34.6)
BlackRock over 15 year gilt index fund	(40.9)
BlackRock institutional sterling liquidity fund ¹	1.3
Blended multi asset fund	(11.9)
MFS Meridian global equity fund	(8.1)
Short duration credit fund	(6.8)
Columbia Threadneedle responsible equity fund ²	(13.2)

¹ From May 2020, the BlackRock sterling liquidity fund is also considered to be a default investment option due to redirection of member contributions without explicit consent, during the temporary suspension of dealing of the Columbia Threadneedle Pensions property fund.

² The names of these funds changed during the Plan year. There have been no changes to the underlying funds or investments.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

Legacy AVC fund net returns over period to year end 31 December 2022

Fund name	1 year (%)
Prudential – cash accumulation with-profits	6.3
Prudential – deposit fund	1.3
Clerical Medical – balanced fund	(8.5)
Clerical Medical – cash fund	0.6
Clerical Medical – far eastern fund	(7.1)
Clerical Medical – UK equity tracker fund	(0.7)
Clerical Medical – ethical fund	(13.2)
Royal London – crest secure fund	0.3

At the time of writing, net returns for all funds from the Plan's remaining AVC providers, Phoenix Life and Clerical Medical, had not been received. The Trustee will continue to work with its advisers to source net returns for the remaining AVC funds, with the aim of including the information in the next Statement.

6. Value for members assessment

The Trustee has assessed the extent to which member borne charges and transaction costs detailed above represent good value for money to members.

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Plan. The date of the last review was the date of this report, 5 July 2023. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of funds available to members.

The Trustee assesses the performance of the Plan's investment funds (after all charges) in the context of their investment objectives on a quarterly basis. The returns on the investment funds members can choose during the period covered by this Statement have broadly been consistent with their stated investment objectives. However, the Trustee notes that many of the Plan's active funds underperformed their respective targets over the Plan year, as most asset classes struggled in 2022 given the challenging market environment. The Trustee will continue to monitor the performance of the Plan's funds to determine if any further action is needed for underperforming funds. Where the Trustee has any concerns that a fund is not providing returns in line with its objective, a review is carried out to assess whether any change is required, noting however, that short term performance is not used as criteria for the Trustee to change an investment option.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

In carrying out the assessment, the Trustee also considers the other benefits members receive from the Plan, which include (amongst other aspects):

- The design of the default arrangements and how these reflect the interests of members.
- The range of investment options and strategies.
- The efficiency of administration processes, the quality of communications, support services and Plan governance, including the benefit of an in-house pensions team, solely focused on the Plan.
- Access to retirement planning tools through the Aviva member site.
- Access to factsheets and guidance provided on the Plan website.
- Additional ill health and death benefits for Plan members.
- Access to live interactive seminars covering relevant pension and financial related topics

The Trustee has taken advice from its investment advisers, who have analysed the Plan against their benchmark, which is based on pension schemes of a similar size from the client portfolio of our investment adviser. The results of the Trustee's assessment, on a scale from 'very good' to 'poor' are as follows:

- **Charges – Very good** – Members bear the cost of administration charges, but fees are reasonably competitive.
- **Administration – Good** – The administration services provided by Aviva are of a good standard. The Trustee is considering increasing its engagement with the administrator to continue to improve performance relative to SLAs.
- **Governance – Very good** – The Trustee and pensions team are very committed to the Plan, demonstrated by the dedicated level of resources and commitment to training. During 2023, the Trustee and the pensions team will be reviewing the Plan's governance to assess compliance with the Pension Regulator's General Code of Practice, which is expected to be published by mid-2023.
- **Communications – Very good** – The Trustee and the administrator issue timely and relevant information to members. Members receive bespoke targeted communications at certain key stages and as they approach retirement. Members also have access to tools and modelling via Aviva's MyWorkplace and the Plan's website.
- **Default investment strategy – Good** – The strategies broadly achieved their objectives over the year. The next full triennial review of the investment arrangements started in March 2023.
- **Investment range – Very good** – The self-select fund range provides access to most asset classes, some specialist options and alternative lifestyle strategies.
- **Post-retirement services – Good** – Support and guidance offered to members are reasonable. Additional support has been added for members in the form of the Wellbeing Hub on the Plan's website.
- **Plan design – Good** – The Plan's design and contribution structure are reasonable and encourage members to take advantage of the extra matching contributions.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

Having considered the various aspects of the Plan, the Trustee is comfortable that the Plan is offering good value to members for costs and charges they incur and will continue to monitor this.

In addition to value provided by the Plan to members, members also benefit from employer contributions, which in the case of the MP03 Section, provides £2 of contributions by the employer for every £1 contributed by the employee, up to the employer contributing a maximum of 16% of the employee's pensionable salary, depending on age. Contributions provided by the employer for the AE section of the Plan are in line with legislation. Members of the AE section have the option to switch into the MP03 section to take advantage of the extra matching contributions.

7. Trustee knowledge and understanding

The Plan's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension, and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

As set out on page 15 of the Trustee's Report, a review of the governance of the Plan, including arrangements with respect to Defined Contribution members, their contributions and benefits, is undertaken by the Trustee through its board and committees.

The Trustee's priority is to provide a strong and stable pension scheme which operates in the interests of its members and to achieve this the Trustee Board and its Committees meet regularly to develop and agree strategy, monitor performance, discuss, and explore issues relevant to the governance and administration of the DC arrangements and make appropriate decisions.

The Plan's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. Each Trustee Director must:

- Be conversant with the trust deed and rules of the Plan, the Plan's statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Plan generally,
- have, to the degree that is appropriate for the purposes of enabling the individual to exercise properly his or her functions as a trustee director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the investment of the assets of occupational pension schemes.

THE PEARSON PENSION PLAN

CHAIRMAN'S DEFINED CONTRIBUTION GOVERNANCE STATEMENT (continued)

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension, and trust law. The CEO of Pearson Pension Trustee Services Limited aims to identify training needs on any topics that become relevant, as well as the Trustee Directors themselves raising any training needs informally in meetings and other communications, and more formally via the annual Trustee evaluation questionnaire. Any Trustee Knowledge & Understanding ("TKU") requirements are shared with the Chairman each year and incorporated into the Trustee Action Plan. In addition, the Trustee Directors also receive various legal updates from the Plan's lawyers. Some of the Trustee Directors have also undertaken individual training across a range of topics which has been recorded within TKU records held by the CEO of Pearson Pension Trustee Services Limited.

Documents and guidance with Plan specific information, including Plan Rules, are provided via the digital board book system to all Trustee Directors and committee members. All changes to Plan rules are approved by the Trustee. The SIP is available on the website (<https://www.pearson-pensions.com/library>) and is also regularly discussed in Trustee and committee meetings and reviewed at least annually.

All new trustee directors are asked to complete the Pension Regulator's trustee toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law), and receive detailed briefings from both the CEO of Pearson Pension Trustee Services Limited and key advisers, as well as other Plan staff as required, which are tailored to the individuals' existing knowledge and expertise.

The Trustee believes that the combined knowledge and understanding of the Trustee Directors, the independent members of certain committees and the staff of the Plan, together with external advice where appropriate, enables the Trustee to exercise properly its functions by collectively providing experience of governance, pension fund management, administration, investment, finance, audit, and member representation.

The Chairman's Defined Contribution Governance Statement was approved by the Trustee on 6 July 2023 and signed on its behalf by:

J A B Joll

Chairman

THE PEARSON PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PEARSON PENSION PLAN

Opinion

We have audited the financial statements of the Pearson Pension Plan ('the Plan') for the year ended 31 December 2022 which comprise the Fund Account, the Statement of Net Assets, and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Plan during the year ended 31 December 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Plan's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

THE PEARSON PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PEARSON PENSION PLAN

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Plan or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

THE PEARSON PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PEARSON PENSION PLAN

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Plan. This is addressed by obtaining direct confirmation from the investment custodian and fund managers of investments held at the Statement of Net Assets date.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.
- Diversion of amounts receivable relating to the bulk annuity policies. This is addressed by testing the reconciliation of amounts received from the bulk annuity providers to the pensions paid to the pensioners or, where appropriate, to the fixed amounts payable under the agreements with the bulk annuity providers.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Plan's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP, Statutory Auditor

London

10 July 2023

THE PEARSON PENSION PLAN

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE PEARSON PENSION PLAN

We have examined the summary of contributions payable to The Pearson Pension Plan, for the Plan year ended 31 December 2022 which is set out on page 76. In our opinion, contributions for the Plan year ended 31 December 2022 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Plan Actuary on the 22 November 2018, 21 January 2022, and 10 November 2022.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the Schedules of Contributions.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the Schedule of Contributions.

Auditor's responsibilities for the statement about contributions

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Plan's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

Crowe U.K. LLP, Statutory Auditor
London 10 July 2023

THE PEARSON PENSION PLAN
FUND ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Defined Benefit Sections £'000	Defined Contribution Sections £'000	2022 Total £'000	Defined Benefit Sections £'000	Defined Contribution Sections £'000	2021 Total £'000
Contributions and benefits							
Employer contributions	(3)	1,905	14,507	16,412	2,482	12,687	15,169
Member contributions		137	7,194	7,331	152	7,528	7,680
Total contributions		2,042	21,701	23,743	2,634	20,215	22,849
Transfers in	(4)	-	161	161	-	677	677
Other income	(5)	150	1,058	1,208	13	122	135
		2,192	22,920	25,112	2,647	21,014	23,661
Benefits	(6)	(102,846)	(2,995)	(105,841)	(97,712)	(1,421)	(99,133)
Payments to and on account of leavers	(7)	(13,421)	(10,377)	(23,798)	(12,089)	(11,492)	(23,581)
Administrative expenses	(8)	(7,485)	-	(7,485)	(6,232)	-	(6,232)
Other payments	(9)	(297)	-	(297)	(317)	-	(317)
		(124,049)	(13,372)	(137,421)	(116,350)	(12,913)	(129,263)
Net movements from dealings with members		(121,857)	9,548	(112,309)	(113,703)	8,101	(105,602)
Returns on investments							
Investment income	(10)	108,571	-	108,571	106,673	-	106,673
Change in market value	(11a)	(1,055,130)	(32,928)	(1,088,058)	(131,537)	87,603	(43,934)
Investment management expenses	(12)	(1,362)	-	(1,362)	(1,604)	-	(1,604)
Net return on investments		(947,921)	(32,928)	(980,849)	(26,468)	87,603	61,135
Net decrease in the Fund during the year		(1,069,778)	(23,380)	(1,093,158)	(140,171)	95,704	(44,467)
Transfers between sections	(15)	3,464	(3,464)	-	1,484	(1,484)	-
Net assets of the Plan							
At 1 January		3,684,405	663,864	4,348,269	3,823,092	569,644	4,392,736
At 31 December		2,618,091	637,020	3,255,111	3,684,405	663,864	4,348,269

THE PEARSON PENSION PLAN
STATEMENT OF NET ASSETS
AS AT 31 DECEMBER 2022

	Notes	Defined Benefit Sections £'000	Defined Contribution Sections £'000	2022 Total £'000	Defined Benefit Sections £'000	Defined Contribution Sections £'000	2021 Total £'000
Investment assets	(11)						
Bonds		129,372	-	129,372	207,138	-	207,138
Property		169,350	-	169,350	205,250	-	205,250
Pooled investment vehicles		1,079,790	619,078	1,698,868	1,591,437	645,900	2,237,337
Insurance policies		1,182,175	-	1,182,175	1,646,840	-	1,646,840
Other investment balances		2,362	-	2,362	3,438	-	3,438
Cash		28,280	-	28,280	7,349	-	7,349
AVC investments		-	14,862	14,862	-	16,619	16,619
		<u>2,591,329</u>	<u>633,940</u>	<u>3,225,269</u>	<u>3,661,452</u>	<u>662,519</u>	<u>4,323,971</u>
Investment liabilities	(11)						
Other investment balances		(3,993)	-	(3,993)	(1,881)	-	(1,881)
Total net investments	(11)	<u>2,587,336</u>	<u>633,940</u>	<u>3,221,276</u>	<u>3,659,571</u>	<u>662,519</u>	<u>4,322,090</u>
Current assets	(14)	40,926	3,745	44,671	33,913	1,917	35,830
Current liabilities	(14)	(10,171)	(665)	(10,836)	(9,079)	(572)	(9,651)
Net assets of the Plan at 31 December		<u>2,618,091</u>	<u>637,020</u>	<u>3,255,111</u>	<u>3,684,405</u>	<u>663,864</u>	<u>4,348,269</u>

The financial statements summarise the transactions of the Plan including the Pearson Pension Property Fund and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and other benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities on page 78 and Actuary's certification of the Schedule of Contributions on page 77 and these financial statements should be read in conjunction therewith. An actuarial valuation was carried out by the Plan Actuary as at 1 January 2021.

These financial statements were approved by Pearson Pension Trustee Limited as Trustee of the Plan on 6 July 2023 and signed on its behalf by:

Chairman

Director

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1 BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and in accordance with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2018).

2 ACCOUNTING POLICIES

The principal accounting policies adopted by the Trustee, which are consistent with the previous year, are shown below for the Defined Benefit (DB) and Defined Contribution (DC):

(a) Investments

(i) Investments other than property

- Private equity funds and infrastructure funds are valued at fair value by the investment managers or their third-party agents, having regard to professional valuations, asset values and other appropriate financial information. If the latest available valuation is not calculated at the Plan's year end date the latest valuation prior to the Plan's year end is adjusted for any drawdowns, refunds, or capital distributions since the valuation date. Drawdowns and distributions are accounted for at the date they are declared or notified to the Plan.
- Segregated Bonds are valued based on the evaluated prices provided by pricing vendors used by our custodian Bank of New York Mellon who use "International Currency Exchange – Foreign". Prices are based on clean prices (the value of the bond less the accrued interest) and may be determined by factors which include but are not limited to, market quotations, yields, maturities, call features, ratings, and institutional size trading in similar groups of securities.
- Other pooled investment vehicles with the exception of the Trade Finance holding are valued at the bid market values for funds with bid/ offer spreads, or a single price where there are no bid / offer spreads, as provided by the relevant investment managers on the last dealing day prior to the year end date. Within other pooled investment vehicles swap contracts and repurchase agreements are held under a QIAIF arrangement, the swap contracts are valued by the investment manager using discounted cash flow models and market data at the reporting date. The repurchase agreements recognise and value the securities that are delivered out as collateral. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount. Trade Finance is valued using discounted cashflow models together with market factors relating to the borrower such as credit risk and past behaviour.
- Investments held in foreign currencies are valued as above and translated into Sterling at the relevant spot rates ruling at the year end date.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2 ACCOUNTING POLICIES (continued)

(ii) Pearson Pension Property Fund

- The investments held in the Pearson Pension Property Fund are fully consolidated into the Plan's financial statements as the Plan is the only beneficiary.
- Freehold and leasehold properties are valued in accordance with the relevant parts of the current Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Under these provisions the term "market value" means "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." The RICS considers that the application of the market value definition provides the same result as current open market values.
- The commercial property portfolio and Housing Association Investments are valued by Knight Frank LLP.
- Pooled property funds are valued in accordance with the accounting treatment for pooled investment vehicles disclosed in note 2(a)(i).
- No depreciation is provided on freehold or leasehold properties.

(iii) Insurance policies

AVCs invested in insurance policies are valued on the basis of their open market transfer values quoted by the relevant insurance companies as adjusted for additions and withdrawals between the valuation dates and 31 December.

Bulk annuity policies are valued by the Plan Actuary at the amount of the related obligation, determined broadly in line with the most recent technical provisions assumptions at the reporting date.

(b) Contributions receivable

Contributions receivable are included on an accruals basis.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2 ACCOUNTING POLICIES (continued)

(c) Investment income

- (i) Investment income, such as distributions from pooled investment vehicles are accounted for when declared by the investment manager.
- (ii) Dividends on unlisted securities are accounted for when declared, with dividends on certain foreign investments being accounted for when received.
- (iii) Net income from properties is accounted for on an accruals basis.
- (iv) Deposit and other interest receivable is accounted for on an accruals basis.
- (v) Annuity income arising from contracts held with insurers is accounted for on an accruals basis.

(d) Transfers in

Transfers in from other registered pension arrangements include all transfers which have been formerly accepted by the Trustee of the Plan as at 31 December in respect of individual members.

(e) Benefits payable

- (i) Transfers out are accounted for on a cash basis and represent the capital sums paid to personal pensions or pension plans of new employers for members who have left service.
- (ii) Benefits payable in respect of retirements and deaths are accounted for on an accruals basis.

(f) Expenses

All expenses are accounted for on an accruals basis.

- (i) Fees to investment managers and fees paid directly to the Custodian are shown as investment management expenses.
- (ii) All expenses relating to direct property investments held via the Pearson Pension Property Fund are deducted from investment income.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3 CONTRIBUTIONS RECEIVABLE

		<u>2022</u>		
		DB Sections £'000	DC Sections £'000	Total £'000
Employer contributions				
Normal	(a) (i)	1,905	14,354	16,259
Additional voluntary	(a) (ii)	-	153	153
Member contributions				
Normal	(b) (i)	137	6,027	6,164
Additional voluntary	(b) (ii)	-	1,167	1,167
		<u>2,042</u>	<u>21,701</u>	<u>23,743</u>

		<u>2021</u>		
		DB Sections £'000	DC Sections £'000	Total £'000
Employer contributions				
Normal	(a)(i)	1,859	12,686	14,545
Special company	(a)(iii)	623	-	623
Additional voluntary	(a)(ii)	-	1	1
Member contribution				
Normal	(b)(i)	152	6,823	6,975
Additional voluntary	(b)(ii)	-	705	705
		<u>2,634</u>	<u>20,215</u>	<u>22,849</u>

(a) Employer contributions

- (i) Amounts receivable from participating employers in accordance with the Schedule of Contributions dated 20 January 2022 from 1 January 2022 to 31 October 2022, and the Schedule dated 10 November 2022 from 1 November 2022 to 31 December 2022 contributions, which include salary exchange amounts.
- (ii) AVCs paid by employers are used to purchase investments, the value of which determines the benefit to members, and which have been invested separately from the main fund, (see note 11(a)).
- (iii) Amounts received from participating employers to enhance members' benefits on leaving service. This amount related to the departure of eight (8) Financial Times members who were granted enhanced early retirement benefits in 2020 and were paid in line with the agreement with the Financial Times.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3 CONTRIBUTIONS RECEIVABLE (continued)

(b) Member contributions

- (i) Members' normal contributions (excluding AVCs) are paid at various rates as set out in the Plan rules.
- (ii) AVCs are paid by members to purchase investments, the value of which determines the benefit to members, and which have been invested separately from the main fund, (see note 11(a)).

4 TRANSFERS IN

	<u>2022</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Individual transfers in from other schemes	-	161	161

	<u>2021</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Individual transfers in from other schemes	-	677	677

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5 OTHER INCOME

	<u>2022</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Claims on term insurance policies	88	1,052	1,140
Income received on non-investment assets	58	-	58
Other income	4	6	10
	<u>150</u>	<u>1,058</u>	<u>1,208</u>

	<u>2021</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Claims on term insurance policies	-	118	118
Income received on non-investment assets	5	-	5
Other income	8	4	12
	<u>13</u>	<u>122</u>	<u>135</u>

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6 BENEFITS PAYABLE

	<u>2022</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Pensions	93,230	-	93,230
Commutations	8,738	1,807	10,545
Lump sum death benefits	638	1,021	1,659
Taxation where lifetime or annual allowance exceeded	240	167	407
	<u>102,846</u>	<u>2,995</u>	<u>105,841</u>

	<u>2021</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Pensions	90,371	-	90,371
Commutations	6,390	1,274	7,664
Purchase of annuities	-	(119)	(119)
Lump sum death benefits	140	11	151
Taxation where lifetime or annual allowance exceeded	811	255	1,066
	<u>97,712</u>	<u>1,421</u>	<u>99,133</u>

In accordance with Plan's Rules, insurance cover, arranged by the Trustee, is maintained to cover the liability for payment of cash lump sums in respect of members who die during service.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2022		
	DB Sections £'000	DC Sections £'000	Total £'000
Individual transfers to other schemes	13,421	10,377	23,798

	2021		
	DB Sections £'000	DC Sections £'000	Total £'000
Refunds to members leaving service	-	3	3
Individual transfers to other schemes	12,089	11,489	23,578
	12,089	11,492	23,581

8 ADMINISTRATION EXPENSES

	2022		
	DB Sections £'000	DC Sections £'000	Total £'000
Administration and processing	5,760	-	5,760
Professional fees	1,725	-	1,725
	7,485	-	7,485

	2021		
	DB Sections £'000	DC Sections £'000	Total £'000
Administration and processing	4,606	-	4,606
Professional fees	1,626	-	1,626
	6,232	-	6,232

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

9 OTHER PAYMENTS

	<u>2022</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Life cover policy premium	<u>297</u>	<u>-</u>	<u>297</u>

	<u>2021</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Life cover policy premium	<u>317</u>	<u>-</u>	<u>317</u>

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10 INVESTMENT INCOME

	<u>2022</u>		
	DB Sections	DC Sections	Total
	£'000	£'000	£'000
Income from fixed interest securities	7,071	-	7,071
Income from pooled investment vehicles	12,879	-	12,879
Net income from properties	8,988	-	8,988
Annuity income*	79,584	-	79,584
Other investment income net of foreign exchange gains and losses	49	-	49
	<u>108,571</u>	<u>-</u>	<u>108,571</u>

	<u>2021</u>		
	DB Sections	DC Sections	Total
	£'000	£'000	£'000
Income from fixed interest securities	7,548	-	7,548
Income from pooled investment vehicles	9,721	-	9,721
Net income from properties	8,515	-	8,515
Annuity income*	80,952	-	80,952
Other investment income net of foreign exchange gains and losses	(63)	-	(63)
	<u>106,673</u>	<u>-</u>	<u>106,673</u>

*£16.7m (2021: £28.6m) of the annuity income is based on the initial data provided to the insurer, Aviva. The data has been 'trued up' from July 2022.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11 RECONCILIATION OF INVESTMENTS

	Notes	Value at 31.12.2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31.12.2022 £'000
DB Sections						
Bonds		207,138	-	(68,038)	(9,728)	129,372
Property	(11c)	205,250	-	-	(35,900)	169,350
Pooled investment vehicles	(11d)	1,591,437	82,276	(50,588)	(543,335)	1,079,790
Insurance policies	(11f)	1,646,840	1,502	-	(466,167)	1,182,175
		<u>3,650,665</u>	<u>83,778</u>	<u>(118,626)</u>	<u>(1,055,130)</u>	<u>2,560,687</u>
Cash & cash equivalents		7,349				28,280
Other investment assets		3,438				2,362
Other investment liabilities		(1,881)				(3,993)
		<u>3,659,571</u>				<u>2,587,336</u>
DC Sections						
Pooled investment vehicles	(11d)	645,900	86,082	(80,948)	(31,956)	619,078
AVC investments		16,619	2,809	(3,594)	(972)	14,862
		<u>662,519</u>	<u>88,891</u>	<u>(84,542)</u>	<u>(32,928)</u>	<u>633,940</u>
Total Investments		<u><u>4,322,090</u></u>			<u>(1,088,058)</u>	<u><u>3,221,276</u></u>

AVC investments within the DC Sections include £10.1m (2021: £11.7m) held by DB members. The AVC investments are defined contributions in nature and are therefore included in that section.

The change in market value of investments during the year comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds and are disclosed in note 11(g). The Trustee believes that the majority of the Plan's investments are readily marketable and that the methods used for their valuation are appropriate to each class of investment.

In May 2022, £50m was invested with Allianz in a diversified portfolio of trade finance instruments. To facilitate this, £31.5m was divested from the LDI portfolio, £15.5m from the Aegon short duration credit portfolio, and £3m from cash. In September 2022, the LDI portfolio was topped up with £25m using surplus cash that had built up in the Aegon portfolio. A further top up of £6.5m was made in November 2022, again using surplus cash from the Aegon portfolio. These top ups fully replace the £31.5m that was divested from the LDI portfolio to invest with Allianz.

Following the sale of two underlying assets, Emtel and Howard, held by Alinda Infrastructure, £9m was distributed to the Plan.

A balancing premium of £1.5m was paid to Aviva as part of the true-up in July 2022. This is included in purchases at cost and as a liability at the year end.

The sale proceeds under the bonds holding represents the maturing of the short-term securities held under Aegon Asset management, of which £24m was held as cash at the year end.

THE PEARSON PENSION PLAN
TRUSTEE'S REPORT (continued)

11(b) FAIR VALUE HIERARCHY

The investments have been analysed according to the basis on which the fair value has been categorised. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Level 1: The unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e., for which market data is unavailable for the asset or liability).

	2022			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
DB Sections				
Bonds	-	129,372	-	129,372
Properties	-	-	169,350	169,350
Pooled investment vehicles	-	645,889*	433,901	1,079,790
Insurance policies	-	-	1,182,175	1,182,175
Cash and cash equivalents	28,280	-	-	28,280
Other investment assets and liabilities	(1,631)	-	-	(1,631)
	<hr/> 26,649	775,261	1,785,426	<hr/> 2,587,336
DC Sections				
Pooled investment vehicles	-	619,078	-	619,078
AVC investments	-	14,340	522	14,862
	<hr/> -	633,418	522	<hr/> 633,940
	<hr/> 26,649	1,408,679	1,785,948	<hr/> 3,221,276 <hr/>

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(b). FAIR VALUE HIERARCHY (continued)

	<u>2021</u>			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
DB Sections				
Bonds	-	207,138	-	207,138
Properties	-	-	205,250	205,250
Pooled investment vehicles	-	1,211,178*	380,259	1,591,437
Insurance policies	-	-	1,646,840	1,646,840
Cash and cash equivalents	7,349	-	-	7,349
Other investment assets and liabilities	1,557	-	-	1,557
	<u>8,906</u>	<u>1,418,316</u>	<u>2,232,349</u>	<u>3,659,571</u>
DC Sections				
Pooled investment vehicles	-	645,900	-	645,900
AVC investments	-	16,091	528	16,619
	<u>-</u>	<u>661,991</u>	<u>528</u>	<u>662,519</u>
	<u>8,906</u>	<u>2,080,307</u>	<u>2,232,877</u>	<u>4,322,090</u>

*The QIAIF investment, which is classed as a pooled investment vehicle, is neither listed nor tradable on a regulated market. The units are priced on a daily basis and there are no redemption restrictions.

The QIAIF assets can also be transferred to another investment manager should the need arise. For these reasons, the QIAIF is categorised as a level 2 investment. The underlying gilts are readily tradable and there is a liquid market for these instruments whilst the underlying swaps and repurchase agreements can be terminated prior to their expiry, subject to associated costs.

11(c) PROPERTY

	<u>2022</u>	<u>2021</u>
	£'000	£'000
DB Sections		
Property	<u>169,350</u>	205,250

The Plan holds a number of interests in UK commercial properties. There are no restrictions on the realisability of the properties, the remittance of income, or disposal proceeds. The properties are however illiquid, as they would take between 3 and 12 months to find a suitable buyer to purchase them at fair value. For all properties that are occupied, it is the tenants who are responsible for repairs and maintenance and dilapidations at the end of their lease.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(c) PROPERTY (continued)

The properties are valued annually at fair value by Knight Frank LLP, a member firm of the Royal Institution of Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors Valuation Standards UK PS 1.1 Valuation for Financial Statements. The principal assumptions on which the valuation was based were rental income, the remaining terms of the leases, and the market rents for those properties.

11(d) POOLED INVESTMENT VEHICLES

	<u>2022</u>	<u>2021</u>
	£'000	£'000
DB Sections		
Return seeking		
Private equity fund	13,596	19,043
Property funds	13,033	14,723
Trade finance fund*	50,981	-
Infrastructure funds	109,555	124,302
	<u>187,165</u>	<u>158,068</u>
DB Sections		
Liability matching		
Bond fund	154	154
Infrastructure funds	246,582	222,037
QIAIF**	645,889	1,211,178
	<u>892,625</u>	<u>1,433,369</u>
	 <u>1,079,790</u>	 <u>1,591,437</u>
DC Sections		
Equity funds	460,314	487,468
Bond funds	71,870	70,870
Property funds	2,567	2,999
Diversified growth funds***	76,804	75,766
Cash funds	7,523	8,797
	<u>619,078</u>	<u>645,900</u>

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(d) POOLED INVESTMENT VEHICLES (continued)

* Trade Finance – Allianz Working Capital Fund invests in illiquid obligations financing the working capital and commercial trade contracts for both small and medium enterprises to large corporates.

** Qualifying investor alternative investment fund managed by Legal & General – see note 11(e).

*** The blended multi-asset fund – An actively managed fund invested in a range of asset types. The funds benchmark is a blend of the underlying fund targets.

11(e) QUALIFYING INVESTOR ALTERNATIVE INVESTMENT FUND

The qualifying investor alternative investment fund (QIAIF) is a pooled arrangement where the Plan is the only participant in the fund. The objective of the QIAIF is to hedge the impact of future changes in interest and inflation rates on the actuarial liabilities using gilts, index-linked gilts, total return swaps, and repurchase agreements, where necessary. The following table provides a breakdown of the securities within the pooled QIAIF investment vehicle as at the year ended 31 December 2022.

	<u>2022</u> £'000	<u>2021</u> £'000
Government bonds	723,284	1,283,657
Payable under repurchase agreements*	(106,502)	(84,069)
Swap assets**	31,040	4,141
Swap liabilities**	(18,296)	(6,854)
Cash and other investment balances	16,363	14,303
	645,889	1,211,178

* Under repurchase agreements, £84.2m of securities (2021: £83.7m) that are delivered continue to be recognised within government bonds. The obligation to pay back the cash received in respect of the securities is recognised as a liability. The value of collateral pledged by the Plan on these agreements as at 31 December 2022 was £22.0m (2021: £1.2m). The collateral is in the form of gilts.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(e) QUALIFYING INVESTOR ALTERNATIVE INVESTMENT FUND (continued)

Income received during the year from investments held within the QIAIF amounted to £13.4m (2021: £14.0m).

	Nominal amount £'000	Market value of assets £'000	Market value of liabilities £'000
**Swap Contracts			
<u>2022</u>			
Interest rate	197,650	24,530	(6,002)
Inflation rate	157,050	6,510	(12,294)
Total	354,700	31,040	(18,296)
<u>2021</u>			
Interest rate	255,157	2,323	(1,573)
Inflation rate	143,390	1,818	(5,281)
Total	398,547	4,141	(6,854)

The expiration dates of the swap contracts are between 2024 and 2034 (2021: 2024 to 2071). The collateral pledged by the Plan on the initial margin on these contracts is in the form of a government bond valued at £8.7m (2021: £5.4m pledged by the Plan) and cash of £0.1m (2021: £0.1m). The net collateral posted on the variation margin at the year end is £13.1m to the Plan by the counterparty (2021: £2.8m posted by the Plan to the counterparty) which collateralises the gain (2021: loss) on swaps. The collateral is in the form of cash and is shown as a liability in the note above. The swap contracts are held in line with the strategy to increase the hedge gradually over time.

11(f) INSURANCE POLICIES

The Plan held insurance policies at year end as follows:

	<u>2022</u> £'000	<u>2021</u> £'000
DB Sections		
Annuity policies	1,182,175	1,646,840

The annuity policies relate to two buy-in contracts with Aviva Life and Legal and General Assurance taken by the Plan, as well as legacy arrangements. The buy-in contracts provide annuity income which is used to pay the benefits for approximately two-thirds of the pensioner population. The policies have been valued by the Plan Actuary using realistic demographic assumptions and a discount rate based on gilt yields with no margin. The discount rate used is BoE gilts curve, with a single equivalent rate of 3.9% (2021: 1.1%), price inflation assumptions is BoE gilts RPI curve, with a single equivalent rate of 3.45% (2021: 3.65%) and pensions increases are devised using Black Scholes model with volatility parameters of 1.5% RPI and 1.0% CPI. (The full assumptions used for the 2022 valuation can be seen on page 78).

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(f) INSURANCE POLICIES (continued)

Collateral is held in respect of these arrangements in the Plan's name, with the Plan's custodian. At 31 December 2022, £1,485m (2021: £1,936m) of collateral held in the form of Corporate and Government Bonds as well as a small amount of cash. All assets held in the collateral are denominated in Sterling, Euro, and US Dollars.

11(g) TRANSACTION COSTS

Transaction costs are included in the cost of purchases and deducted from sales proceeds. Direct transaction costs charged to the Plan comprise fees, commission, and stamp duty.

Transaction costs analysed by main asset class and type of cost are as follows:

	Fees £'000	Commission £'000	Stamp duty and taxes £'000	2022 Total £'000	<u>2021</u> Total £'000
Property	-	-	-	-	1
2022	-	-	-	-	-
<u>2021</u>	1	-	-	-	1

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles and charges are made within those vehicles.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS

The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Currency	Market Risk		2022 £'000	%	2021 £'000	%
			Interest Rate	Other Price				
DB Sections								
Return seeking assets								
Pooled investment vehicles	●	◐	◐	◐	187,165	7.2	158,068	4.3
<i>Private equity</i>					13,596	0.5	19,043	0.5
<i>Property</i>					13,033	0.5	14,723	0.4
<i>Trade finance</i>					50,981	2.0	-	-
<i>Infrastructure</i>					109,555	4.2	124,302	3.4
Other investment assets	●	○	●	○	46	0.0	43	0.0
					187,211	7.2	158,111	4.3
Liability matching assets and liabilities								
Pooled investment vehicles	●	◐	◐	◐	892,625	34.5	1,433,369	39.2
<i>LDI (QIAIF)</i>					645,889	25.0	1,211,178	33.1
<i>Infrastructure</i>					246,582	9.5	222,037	6.1
<i>Bonds</i>					154	0.0	154	0.0
Property	◐	○	○	●	169,350	6.5	205,250	5.6
Bonds	●	○	●	◐	129,372	5.0	207,138	5.7
Cash	●	◐	●	○	28,280	1.1	7,349	0.2
Other investment assets	●	○	●	○	2,316	0.1	3,395	0.1
Other investment liabilities	●	○	●	○	(3,993)	(0.2)	(1,881)	(0.1)
					1,217,950	47.1	1,854,620	50.7
Insurance policies	◐	○	●	◐	1,182,175	45.7	1,646,840	45.0
Total DB investments					2,587,336	100.0	3,659,571	100.0
DC Sections								
Return seeking assets								
Pooled investment vehicles	●	◐	◐	◐	619,078	97.7	645,900	97.5
<i>Equity</i>					460,314	72.6	487,468	73.6
<i>Bond</i>					71,870	11.3	61,088	9.2
<i>Property</i>					2,567	0.4	2,999	0.5
<i>Diversified growth</i>					76,804	12.1	85,549	12.9
<i>Cash</i>					7,523	1.2	8,796	1.3
AVC investments	●	○	○	●	14,862	2.3	16,619	2.5
Total DC investments					633,940	100.0	662,519	100.0
Total investments					3,221,276		4,322,090	

In the above table, the risks affect the asset class ● significantly, ◐ partially, or ○ hardly/not at all.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS (continued)

I. Defined Benefit investment risks

The investment objective and strategy for the Defined Benefit Sections is set out on pages 20 and 21, whilst the investment risks that can impact the funding level are set out below. As well as affecting the value placed on the assets, changes in investment market conditions can also impact the value placed on the actuarial liabilities. Where this is the case, it is noted under the relevant investment risk heading. The Defined Benefit Sections' investments are valued at £2,587m (2021: £3,660m), as shown in the investment risk table on page 64. The main reason for the fall in value is due to the buy-ins with the insurers and the LDI QIAIF being affected by the gilt yields increasing which pushed gilt prices down; however, the value of the assets moves in line with the actuarial liabilities as explained further below (see mismatching risk and Interest rate risk below), so the Plan's liabilities have decreased to a similar extent. The Plan employs a low-risk investment strategy and hedges a large portion of the funding position's exposure to changes in both interest rates and inflation using gilts and repurchase agreements (repos). The interest rate and inflation hedging has been maintained throughout the market volatility seen following the UK government's announcement of the "mini-budget" and since.

Mismatching risk

Mismatching risk relates to a difference in the sensitivity between asset and actuarial liability values, as a result of changes to financial and demographic factors. This is considered when setting the investment strategy and is managed through regular reviews. The implementation of LDI has substantially mitigated this mismatching risk by forming a portfolio of assets, the value of which broadly moves in line with the actuarial liabilities. The Plan's investment in the two buy-in contracts is intended to provide a match for the liabilities for the members they cover, substantially reducing risk for the insured population, see note 11(f) for details. The Trustee receives regular reports from its managers and investment consultant setting out the level of mismatching exposure in the assets of the Defined Benefit Sections. Regular discussions also involve the Plan actuary who reports on the actuarial liabilities.

There are predominantly three risks which contribute to mismatching risk: interest rate; inflation and longevity. Further information on these risks is set out below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate fluctuations will affect the valuations of both investments and actuarial liabilities (given that the Plan Actuary values actuarial liabilities with reference to the yield on UK government bonds).

If interest rates fall, the value of the insurance portfolio and liability matching assets will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the assets will fall in value, as will the actuarial liabilities because of an increase in the discount rate. As at 31 December 2022, the liability matching assets and insurance policies represented 93% (2021: 96%) of the total investment portfolio.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS (continued)

Interest rate risk (continued)

The Trustee, through the Investment Committee, requires that interest rate risk is regularly looked at and reported on, by requesting and monitoring a quarterly report which highlights the expected effect of interest rate changes on the assets and actuarial liabilities. The sensitivities between the assets and actuarial liabilities are formally reviewed after each triennial valuation or if there are any significant changes to the profile of the actuarial liabilities, or major changes in investment markets. The Trustee and Investment Committee receive the support of the Plan Actuary and investment consultant in this regard.

Within the liability matching assets, the Defined Benefit Sections are exposed to interest rate risk because the Plan invests in bonds, cash, swaps, and repurchase agreements through bond funds, infrastructure funds and the QIAIF, as shown in the investment risk table on page 64 and note 11(e). It is also exposed to direct interest rate risk through its segregated bond holdings as shown in the investment risk table on page 64.

Inflation risk

The Defined Benefit Sections' liabilities are often directly linked to inflation and the risk is that the assets do not also have this sensitivity. Liability driven investments are used to help mitigate this risk, by ensuring that the liability inflation sensitivity is matched to the highest extent possible. The buy-in insurance portfolio also mitigates this risk as the insurance policy guarantees to provide income for the pensions of the insured population, including inflationary increases prescribed in the Plan rules.

The property and certain infrastructure assets also assist in mitigating this risk as the underlying contracts and asset values are linked to inflation, thereby providing matching characteristics. The investment consultant reviews the portfolio position should sharp inflation fluctuations occur and the asset no longer matches the movement in the pension liability; however, most properties are subject to caps and floors similar to the RPI caps and floors in the rules for pension increases within the different sections for the Plan.

Credit risk

Credit risk 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.

Direct credit risk

Where a pension scheme invests in a pooled investment vehicle, it has direct exposure to the credit risk from both the pooled investment vehicle and the investment manager (see investment risk table on page 64). Direct credit risk exposure is mitigated through segregating the Plan's assets from the assets of the manager in accordance with applicable regulations, such as the Financial Conduct Authority client asset rules and regulation by the Prudential Regulation Authority. Direct credit risk is also mitigated by diversification of investments amongst a number of investment managers.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS (continued)

Credit risk (continued)

Direct credit risk has been mitigated in part by the buy-in contracts due to the fact that they are collateralised, with the collateral pool of assets held in the Trustee's name with a third-party custodian (see note 11(f)). In the event that an insurer was unable to make payment of the contracted amount, or in other agreed circumstances, the Trustee would have control of the collateral assets, thereby reducing the exposure to the insurers.

Investment in the QIAIF is via a life insurance policy issued by a subsidiary of Legal & General Investment Management (LGIM). LGIM manage the assets which are owned by the subsidiary which writes only a small enough amount of pure life insurance to qualify as a life company and this is more than covered by its capital and reserves. The assets underlying the policy, therefore, are effectively ring-fenced.

A summary of pooled investment vehicles by type of legal structure is as follows:

	<u>2022</u>	<u>2021</u>
	£'000	£'000
DB Sections		
QIAIF	645,889	1,211,178
Open-ended investment companies	50,981	-
Shares in limited partnerships	369,733	365,382
Unit trusts	13,033	14,723
Mutual institution fund	154	154
	<u>1,079,790</u>	<u>1,591,437</u>

The Trustee carries out due diligence checks to ensure the legal structure is appropriate to the country of jurisdiction, there is sufficient security of assets and adequate diversification of investments. A due diligence check also takes place upon the appointment of new pooled investment managers. The investment consultant monitors any changes to the operating environment of the pooled managers on an ongoing basis.

The Plan is the sole investor in the QIAIF, the Plan's liability driven investments, and is therefore directly exposed to the financial instruments held in the QIAIF which include UK gilts, repurchase agreements (repos), swaps and cash (see note 11(e)). The underlying instruments are collateralised on a daily basis, thus reducing the risk of counterparty default as far as is reasonably practical. Given the level of collateral within the QIAIF, and the limited use of leverage, the Trustee has been advised that the overall level of liquidity is sufficient and does not believe that tradability in regulated markets is a concern in relation to this investment; nonetheless, this is monitored regularly. Further information relating to collateral is included in note 11(e).

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS (continued)

Credit risk (continued)

The Plan is subject to direct credit risk through the segregated bond portfolio investment managed by Aegon Asset Management (see the investment risk table on page 64). The Fund is able, with some restrictions, to invest in investment grade and sub investment grade corporate bonds; the latter carrying greater credit risk, but having a higher yield to compensate investors. Credit risk is reduced by the restrictions placed by the Trustee under the contract which include only investing BBB- or above and sector limits. The investment manager is also required to ensure the fund is highly diversified, thereby avoiding inappropriate risk concentrations.

Indirect credit risk

Indirect exposure to credit risk arises from the underlying investments of the pooled investment vehicles including bonds, infrastructure, private equity, property, and trade finance (see the investment risk table on page 64).

The credit risk within the current strategy is managed by ensuring that guidelines are in place to ensure an appropriate overall level of credit quality and diversification of issuers and counterparties commensurate with the objectives of the investment. All investments held within the QIAIF are investment grade and all debtors under the Trade Finance fund are grade B and above.

Property (see note 11(c) and the investment risk table on page 64) is subject to the risk of the underlying tenant defaulting, hence preventing the receipt of cash flows. This risk is partially mitigated through the ownership of the building which enables the property to be let to a different tenant or an alternative use to be employed should such a default occur. All properties within the portfolio are let to tenants with a high-quality covenant.

The Trustee receives regular reports from the managers setting out the extent of credit risk within their portfolios and, in particular, whether any agreed guidelines have been complied with.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Defined Benefit Section investments are, for the most part, Sterling denominated. As explained below, currency risk remains in relation to the investment in infrastructure funds, private equity funds and an investment through the property fund (see the investment risk table on page 64).

The infrastructure funds with foreign currency cash flows are exposed to currency risk as the payments are affected by fluctuations in exchange rates. The private equity fund has partial exposure to foreign currency, but forms part of a wider asset allocation strategy. The CBRE property fund mandate is not hedged, but forms a very small allocation of the property portfolio.

The Trustee is able to take a long-term view on currency risk and therefore can accept some of the short-term volatility in currency markets and avoid the costs associated with currency hedging. The Trustee will monitor this risk and has the ability to reduce the level of currency risk taken if deemed necessary.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS (continued)

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other price risk arises principally in relation to the infrastructure funds and property funds within the return seeking portfolio (see the investment risk table on page 64). The purpose of accepting these risks is to ensure that, when considered as a whole, the assets of the Defined Benefit Sections form a suitably diversified portfolio in terms of the type of risk taken and the sources of expected future returns.

The Trustee receives regular reports from its investment consultant setting out the nature and extent of the risks in the Defined Benefit Sections investments.

Longevity risk

Longevity risk relates to those risks which are related to the life expectancy of members and beneficiaries, which would affect the valuation of the actuarial liabilities but not the asset valuation. This can result in higher than expected pay-out.

The Plan holds two bulk annuity contracts insuring the liabilities at the current level of approximately two-thirds of the pensioner population. This provides protection against longevity risk, as well as inflation risk and other risks for those members since it is intended to provide a match for those liabilities. See further details in note 11(f). The Trustee will continue to explore further opportunities to mitigate this risk if it believes that this can be done cost effectively and is in the best interests of the members. In addition to buy-in transactions, the remaining longevity risk is addressed by including a buffer in the targeted returns for the main portfolio of assets.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(h) INVESTMENT RISKS (continued)

II. Defined Contribution investment risks

The section below sets out the key direct and indirect risks to which the Defined Contribution Sections are exposed. An analysis of the funds held is provided in the investment risk table on page 64. The majority of holdings in the Defined Contribution Sections are held in the default lifecycle arrangement, as explained on page 17 with the associated risk described below.

Market risk

The Defined Contribution Sections are subject to indirect currency, interest rate and other price risks associated with the underlying investments on the Aviva platform. These risks can affect the valuations of the underlying funds.

The equity fund has the majority of its holding in the BlackRock Blended Global Equity (see page 16 of the Trustee's report) and its currency risk has largely been removed as a result of hedging within the fund, therefore the greatest market risk exposure impacting this fund is other price risk.

The main diversified growth fund held is the Blended Multi Asset Fund (see page 16 of the Trustee's report) which provides an element of downside protection and therefore has lower risk than the equity funds; however, diversified growth funds are exposed to elements of foreign currency risk, interest rate risk, other price risk, and credit risk.

Bonds and cash funds are utilised when a member is near retirement and these are exposed to interest rate and credit risk; however, all of the underlying investments are investment grade. Further, the Investment Committee closely monitors the performance of the managers and receives formal quarterly reports from the investment consultant giving views on the managers' continued performance.

Credit risk

The credit risk within the current strategy in theory arises from Aviva holding the funds provided through its platform and BlackRock as the underlying manager of majority of the funds.

As detailed within credit risk for Defined Benefit Sections above, direct credit risk is unlikely to exist within pooled arrangements that can be traded on the open market as the underlying assets of the pooled arrangements are ring-fenced. This is the case for all BlackRock and other funds available to Defined Contribution Section members. In addition, any residual risk is mitigated by investments in appropriately regulated vehicles. The DC Sections investments in pooled investment vehicles are held in unit-linked insurance contracts.

Indirect credit risk is experienced through the underlying holdings in the investment platform. This is managed by ensuring that guidelines are in place for each manager to ensure an appropriate overall level of credit quality and diversification of issuers and counterparties commensurate with the objectives of the investment. All underlying bonds within the Defined Contributions Section funds are investment grade.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11(i) SELF-INVESTMENT

In accordance with the Trustee's policy, no direct investments (2021: £Nil) were held in Pearson plc, or in companies in which Pearson plc held 20% or more of the equity share capital. However, the Plan's net assets at the 31 December 2022 include a de minimis amount of investments in Pearson plc through indirect investment holdings via the DC BlackRock UK Equity Index Tracker Fund which is less than 0.3% (2021: less than 0.2%) of the Plan's net assets; well below the 5% level permitted by legislation.

11(j) CONCENTRATION OF INVESTMENTS

The investments (other than UK Government Securities) at the year-end which are more than 5% of the total value of the net assets of the Plan comprise:

	<u>2022</u>		<u>2021</u>	
	£'000	%	£'000	%
DB Sections				
LGAS Buy-in	788,266	24.2	1,087,822	25.0
Aviva Buy-in	388,952	11.9	554,768	12.8
LGIM QIAIF	645,889	19.8	1,211,178	27.9
Abrdn Infrastructure Partners LP	201,673	6.2	180,371	4.1
DC Sections				
BlackRock Blended Global Equity	429,336	13.2	452,490	10.4

12 INVESTMENT MANAGEMENT EXPENSES

	<u>2022</u>	<u>2021</u>
	£'000	£'000
DB Sections		
Administration, management, and custody	536	870
Investment advisory	826	734
	1,362	1,604

The administrative expenses associated with the operation of the Defined Contribution Sections are incurred by the Defined Benefit Sections and disclosed within the Defined Benefit Section of the Fund Account on page 45. The Plan Actuary has incorporated an estimation of the administrative costs, the life assurance provision and the reference scheme test underpin associated with this section within the funding arrangements for the Plan.

13 TAXATION

The Plan is a registered pension scheme under chapter 2 of part 4 of the finance act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge in the Revenue Account represents irrecoverable withholding taxes arising on investment income.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14 CURRENT ASSETS AND LIABILITIES

Current Assets

	<u>2022</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Cash and cash equivalents balances	32,446	2,140	34,586
Cash held with Aviva	-	485	485
Pensions paid in advance	6,568	-	6,568
Amount due from DB to DC section	-	1,120	1,120
VAT recoverable	1,606	-	1,606
Prepaid expenses and sundry items	306	-	306
	<u>40,926</u>	<u>3,745</u>	<u>44,671</u>

	<u>2021</u>		
	DB Sections £'000	DC Sections £'000	Total £'000
Cash and cash equivalents balances	26,114	1,913	28,027
Cash held with Aviva	-	4	4
Pensions paid in advance	6,375	-	6,375
VAT recoverable	1,103	-	1,103
Prepaid expenses and sundry items	321	-	321
	<u>33,913</u>	<u>1,917</u>	<u>35,830</u>

The "DC sections" current assets include £250k which is unallocated to members 2022 (2021: £250k).

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14 CURRENT ASSETS AND LIABILITIES (continued)

Current Liabilities

	<u>2022</u>		
	DB Sections	DC Sections	Total
	£'000	£'000	£'000
Unpaid benefits	(224)	(665)	(889)
Accrued expenses:			
Administration	(1,899)	-	(1,899)
Investment management expenses	(110)	-	(110)
Amount due to DC from DB section	(1,120)		(1,120)
Annuity income paid in advance	(6,818)	-	(6,818)
	<u>(10,171)</u>	<u>(665)</u>	<u>(10,836)</u>

	<u>2021</u>		
	DB Sections	DC Sections	Total
	£'000	£'000	£'000
Unpaid benefits	(409)	(572)	(981)
Accrued expenses:			
Administration	(1,588)	-	(1,588)
Investment management expenses	(329)	-	(329)
Annuity income paid in advance	(6,753)	-	(6,753)
	<u>(9,079)</u>	<u>(572)</u>	<u>(9,651)</u>

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15 TRANSFER BETWEEN SECTIONS

Transfers between sections of £3.5m from the DC Sections to the DB Sections (2021: £1.5m from DC to DB) relate to funds above £250k being automatically swept from the DC bank account to the special interest-bearing account held by the DB Sections. Of this amount £4m (2021: £2m) relates to funds that will be retained by the DB Section to pay out Money Purchase pensions set ups and dependant pensions for death in service members, £0.1m (2021: £0.2) relates to the RST payments funded by the Plan for DC members. The balance of £0.4m relates to the timing of payments.

16 INVESTMENT COMMITMENTS

At 31 December 2022, there were the following capital commitments made by the Trustee:

- (a) £nil (2021: £328k) in the property portfolio to subscribe to future investments.
- (b) Up to £9,199k (2021: £8,477k) to Pantheon Ventures Limited to finance the private equity portfolio in future years. This commitment is expected to be partly funded by distributions from the private equity portfolio.
- (c) Up to £1,985k (2021: £1,879k) to EQT Infrastructure (No.1) limited partnership, an infrastructure fund. This fund is in the process of being wound up, therefore it is unlikely that this commitment will be called.
- (d) Up to £3,713k (2021: £3,664k) to Alinda Infrastructure Parallel Fund II, an infrastructure fund.
- (e) Up to £9k (2021: £9k) to Aberdeen Infrastructure Partners LP Inc., an infrastructure fund.

Capital commitments mentioned above exclude recallable commitments and, where applicable, are translated into Sterling at the relevant spot rates ruling at the year-end date.

THE PEARSON PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

17 RELATED PARTY TRANSACTIONS

Fees paid to Trustee Directors during the year amounted to £206,524 (2021: £193,119). Expenses paid to Trustee Directors for costs incurred directly in the course of their duties during the year amounted to £124 (2021: £703). A balance of £7,309 (2021: £7,792) was outstanding at year end relating to these fees.

All Trustee Directors, with the exception of L Ruddick and J Plender, are also Plan members.

Pearson Pension Trustee Services (PPTS) employs the Plan's administrative and accounting staff. Pearson Management Services (PMS) provides the Plan with accommodation and related services. The overall cost of these services to the Plan during the year was £3,108,005 (2021: £2,614,476), of which £199,233 (2021: £297,991) relates to accommodation and related services. At 31 December 2022, the Plan owed PPTS £985,216 (2021: £579,882) and PMS £50,237 (2021: £24,833) due to the timing of invoicing.

The Plan's IT services charges for the year were £50,697 (2021: £47,980) and were provided by Pearson Shared Services Limited (PSS). At 31 December 2022, the Plan owed PSS £240,748 (2021: £190,051) in relation to these charges.

18 GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and woman in relation to guaranteed minimum pension benefits. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The Plan is undertaking a detailed exercise to ensure members are receiving the correct GMP amount.

On 20 November 2020, the High Court gave a judgment on the issue of transferring schemes' liabilities to make up the shortfalls in the transfer values calculated and settled on the basis of unequalised GMPs.

The latest valuation includes a reserve of £19m, £17m to correct the GMP for current members of the Plan and £2m for members who have transferred out. A provision has not been recognised in the financial statements in respect of the correction of backdated payments as it is expected to be immaterial and given the uncertainty surrounding the final amount.

THE PEARSON PENSION PLAN
TRUSTEE'S SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE PLAN YEAR ENDED
31 DECEMBER 2022

Contributions payable to the Plan in accordance with the Schedules of Contributions in respect of the year ended 31 December 2022 were as follows:

	2022 £'000
Employer normal contributions	16,259
Employer additional voluntary contributions	153
Members normal contributions	6,164
Total contributions paid under the Schedules of Contributions*	<u>22,576</u>
Members additional voluntary contributions	1,167
Contributions disclosed in the financial statements (see pages 50 to 51, note 3)	<u><u>23,743</u></u>

* These contributions were paid in accordance with the Schedules of Contributions certified by the Actuary.

For and on behalf of
Pearson Pension Trustee Limited

J A B Joll
Chairman
10 July 2023

THE PEARSON PENSION PLAN

ACTUARY'S CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

Actuary's certification of schedule of contributions

The Pearson Pension Plan

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 January 2021 to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the 2021 Statement of Funding Principles.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound up.

Signature**Date**

Steve Leake (Nov 10, 2022 18:01 GMT)

10 November 2022

Name

Steve Leake
Plan Actuary

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

Phoenix House
1 Station Hill
Reading
Berkshire
RG1 1NB

Employer

XPS Pensions Consulting Limited

Actuary's certification of schedule of contributions

The Pearson Pension Plan

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 January 2021 to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the 2021 Statement of Funding Principles.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound up.

Signature**Date**

S M Leake (Dec 16, 2022 20:24 GMT)

12/16/2022

Name

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THE PEARSON PENSION PLAN

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent full actuarial valuation of the Plan was carried out as at 1 January 2021

The value of the technical provision was: £4,233 million

The value of the assets at that date was: £4,393 million

The methods and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions are set out in the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Discount interest rate: term dependent rates set by reference to the BoE gilt curve plus 0.6% p.a. at the valuation date for non-pensioners and BoE gilt curve at the valuation date for pensioners.

Future retail price inflation: term dependent rates set by reference to the BoE gilt RPI inflation curve.

Future consumer price inflation: term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 1.0% p.a. pre 2030 and future retail price inflation less an adjustment equal to 0.0% p.a. post 2030.

Pension increases: Set using the assumed rate of future inflation and a Black-Scholes model with inflation volatility of 1.5% per annum for RPI linked increases and 1.0% for CPI linked increases for pension payments and term dependent rates for the future retail price inflation with relevant caps and floors for deferred pension before retirement.

Pay increases: general pay increases of 0.5% p.a. above the term dependent rates for the future retail price inflation.

Mortality: for the period in retirement, standard S3 tables with a scaling factor of 95% for all males and 97% for females. In addition, there is an allowance for future improvements in line with the CMI 2019 projection model with 1.5% per annum long term improvements, a smoothing factor of 7.0 and an initial addition of 0.0% for non-insured and 0.4% for insured members.

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Pearson Pension Trustee Limited ("the Trustee") on various matters governing decisions about the investments of the Pearson Pension Plan ("the Plan"), a Plan with Final Pay and Defined Contribution ('DC') sections. This SIP replaces the previous SIP dated 14 October 2021.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The Plan's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Plan's Trust Deed. The SIP also reflects the Trustee's response to the Myners' Voluntary Code of Investment Principles for Defined Benefit ('DB') and DC Schemes, as well as the DC Code of Practice 13.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Plan's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy or in the demographic profile of the relevant members in respect of the DC sections and at least once every three years.

- **Appendix 1** sets out details of the Plan's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.
- **Appendix 3** sets out the Plan's investment manager arrangements.

2. Investment objectives

2.1. Final Pay Sections

The primary objective for the Final Pay sections is to ensure that the Plan should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has additional objectives. These are as follows:

- An overall objective to invest the Plan's assets in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Plan into the future. This includes, where possible and agreed with the Principal Employer, discretionary increases to pensions in payment in excess of the guarantees in the Plan Rules, so that total pension increases broadly aim to protect against cost of living increases.
- A shorter term objective of endeavouring to invest the Plan's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Plan's liabilities.

2.2. Money Purchase and Auto Enrolment Sections (Defined Contribution ("DC") Sections)

The Trustee's primary objectives for the DC sections of the Plan are to:

- Provide an appropriate range of investment options, reflecting the membership profile of the DC sections and the variety of ways that members can draw their benefits in retirement;
- Provide clear information on the investment options and their characteristics that will allow members to make informed choice and;
- Provide a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the main default option for the DC sections, the Drawdown Lifecycle, is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

3. Investment strategy

3.1. Final Pay Sections

Asset allocation is considered regularly by the Trustee and reviewed in detail following each actuarial valuation, taking into account the objectives described in Section 2 above. The Trustee divides the assets of the Plan into two sections the **Insurance Portfolio** and the **Main Portfolio** which are composed as follows:

- The **Insurance Portfolio** consists of assets which are held in the form of insurance contracts matching a portion of the liabilities of the Plan.

The insurer pays the Plan an amount equal to the pension payment in respect of the members underlying the policy. These insurance contracts are assets of the Plan and the pension liability remains within the Plan.

Towards the end of 2017 the Plan purchased two separate buy-in policies with Aviva Life & Pensions UK Limited (Aviva) and Legal and General Life Assurance Limited (L&G). The two policies covered approximately two thirds of the pensioner member's liabilities at the time of the transactions. The Plan purchased a further buy-in under the same policy with L&G in February 2019 which covered most of the remaining uninsured pensioner member's liabilities at the time of the transaction.

- The **Main portfolio** consists of all Plan assets outside of the Insurance Portfolio. The Main portfolio is composed of **Matching** and **Return Seeking** assets.
 - The **Matching Assets** are assets which produce cashflows that can be expected to match the cashflows for a proportion of the membership. The Matching Assets include bonds, trade finance, inflation linked property and infrastructure. Liability Driven Investment is a key component of the Plan's Matching Assets as it allows it to match a higher proportion of the expected liability cashflows.
 - The **Return Seeking Assets** are invested with a long term horizon to generate the returns needed to provide the remaining expected cashflows for the beneficiaries. This portfolio is invested in a diversified portfolio of return seeking assets. The Return Seeking Assets are expected to be formed of an allocation to Infrastructure, Private Equity and Property.
 - The Plan's total allocation as at 30 September 2021 was c.96% to the Insurance portfolio and Matching Assets and c.4% to Return Seeking assets. The actual allocation depends on the relevant market values and so will fluctuate over time.

This is a low risk asset allocation which maintains a low probability of requiring further contributions from the Plan's Sponsor.

The primary focus of the Plan's allocation of investments is accurate cashflow matching and risk control.

The Insurance Portfolio is cashflow matching as it provides payments which are expected to exactly match the benefit payments for the insured members.

A small allocation to Return Seeking Assets has been maintained in the Plan's asset allocation to provide a buffer for any changes in actuarial assumptions, longevity risk, and to potentially allow for discretionary increases to members in certain scenarios as described in the investment objectives.

Based on asset-liability modelling as at 30 September 2021, the Plan's invested assets (excluding the Insurance Portfolio), are expected to generate a return of 1.3% per annum above gilts with an acceptable level of volatility. The Plan's investment strategy is reviewed and modelled following each Actuarial Valuation. The allocation to each asset class will vary due to market movements and will be kept under review by the Trustee.

3.2. Defined Contribution Sections

Alongside the Final Pay sections are the DC sections, the Money Purchase sections and the Auto Enrolment section, which are treated entirely separately to the Final Pay sections and look to provide each member with an appropriate range of Funds to select as well as ensuring that the strategy for each of the Lifecycle options is appropriate for the variety of members taking part.

The Trustee has taken into account the needs of members in deciding which investment funds should be offered. The investment choices should provide appropriate exposures to generate income and capital appreciation which, combined with member and employer contributions, will help towards the provision of a sufficient retirement benefit.

The investment funds offered to members are provided by the Aviva investment platform and consist of the following asset classes:

- Equity
- Bonds
- Diversified Growth
- Property
- Cash

The Trustee is aware that different members will have different personal circumstances and different attitudes towards risk. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved. If a member does not choose an investment option, their account will be invested into the main default option, the Drawdown Lifecycle, which is managed as a "lifecycle" strategy (i.e. it automatically combines investments in proportions that vary according to the time to retirement age). The Drawdown Lifecycle is also the default arrangement for members who make Additional Voluntary Contributions

("AVCs"). This applies to all existing members that have assets invested in the Money Purchase and Auto Enrolment sections that are targeting Drawdown and also new members. This does not apply, however, to AVC benefits where the member has no assets already invested in the Drawdown Lifecycle through the Money Purchase or Auto Enrolment sections, or is a DB member with AVC benefits but no assets in these aforementioned DC sections.

The Plan also has a "lifecycle" strategy that targets lump sum at retirement called the Cash Lifecycle. This lifecycle is also the default Lifecycle Option for existing members with AVC benefits within the Plan who have do not have assets invested in the Drawdown Lifecycle, or are DB members with AVC benefits who do not have assets invested in the Money Purchase or Auto Enrolment sections of the Plan. This lifecycle is also open to members to select.

Additionally, there is a legacy default option, the Annuity Lifecycle, which remains a lifecycle option for members to select. This option targets annuity at retirement.

In the initial growth phase, the above lifecycle options (including the legacy default, the Annuity Lifecycle) are invested to target a return significantly above inflation, and then in the 15 years before retirement, they switch gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members wishing to access drawdown (in the case of the Drawdown Lifecycle), take their pot as cash (the Cash Lifecycle) or purchase an annuity at retirement (Annuity Lifecycle).

The default lifecycle options were designed to be in the best interests of the majority of the members based on the demographics of the Plan's membership. Each option is designed to reflect the Trustee belief that most members in that cohort will take their benefits in the specified form.

The Threadneedle Pensions Property Fund was suspended by the manager in May 2020 due to pricing uncertainty caused by the Covid-19 crisis. Member contributions were therefore redirected into the BlackRock Sterling Liquidity Fund until the Property Fund reopened on 17 September 2020. As members' contributions were directed into the BlackRock Sterling Liquidity Fund during this time without them making an active selection, this fund will be treated as a default for the purpose of fulfilling legislative requirements.

Further details of the fund range including the lifecycles are set out in Appendix 3. The Trustee reviews the range of investment funds, the lifecycle strategies and the default options offered to members of the DC sections from time to time with the help of its advisors and will amend them as appropriate.

These reviews will take place as soon as practicable after any significant change in investment policy or in the demographic profile of the relevant members in respect of the DC sections, and at least once every three years. The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

4. Considerations in setting the investment arrangements

When deciding how to invest the Plan's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumptions made by the Trustee change periodically, reflecting the market outlook. As at 30 September 2021, the long term, expected returns above gilts are as follows:

- Private equity: 5.8% pa
- Listed equity: 4.8% pa
- Infrastructure 4.2% pa
- UK property: 3.1% pa
- DGFs: 2.9% pa
- Investment grade credit: 0.7% pa

In setting the strategy for the Final Pay sections the Trustee considered:

- the Plan's investment objectives, including the target return required to meet the Trustee's investment objectives;
- the Plan's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of members and beneficiaries;
- the circumstances of the Plan, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;

- the need for appropriate diversification between different asset classes to ensure that both the Plan's overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Plan; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the DC sections, the Trustee considered:

- the best interests of members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards and suitability of a number of possible asset classes and lifecycle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategies and other lifecycle options to ensure that, for each such option, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members;
- any other considerations which the Trustee considers financially material over the periods until members' retirement, or any other timeframe which the Trustee believes to be appropriate; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers and the platform provider for the DC sections are set out in Appendix 3.

In respect of the DC sections, the Trustee has entered into a contract with a platform provider, who makes available the range of investment options to members. There is no direct relationship between the Plan and the underlying investment managers of the DC investment funds.

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The Trustee has signed agreements with the investment managers (in respect of the Final Pay sections), and a platform provider (in respect of the DC sections) setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Plan's investments.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Plan meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

6. Realisation of investments

6.1. Final Pay Sections

In general, individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required to ensure that the Plan's benefit payments and other expenditure can be met.

The Trustee, and investment managers (to the extent delegated), will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005, when selecting investments on behalf of the Plan. The Trustee expects the investment managers to give effect to the principles in this statement as far as is reasonably practical.

The Trustee has agreed a series of investment restrictions for each manager where there is a separate Investment Management Agreement (IMA) in place. The Trustee will monitor the continuing tenure of the Investment Managers, including the competitiveness of their fee structures, from time to time, based on advice from the Investment Committee and the external investment adviser. The Trustee will also utilise compliance reporting provided by the custodian, Bank of New York Mellon, in the monitoring of Investment Managers

6.2. Defined Contribution Sections

For the DC sections, the Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments. The Trustee decides which fund options to put forward to members. When deciding to add or remove investment fund options the Trustee will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005.

In general, individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required to ensure that the Plan's benefit payments and other expenditure can be met.

7. Consideration of financially material and non-financial matters

The Trustee believes that environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG and climate related factors.

The Trustee has considered how ESG and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan and its members. The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills

3694220 and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

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The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The DC sections include one equity investment option as a choice for members to select if they wish to invest in a fund focused on ESG risks. A small number of members remain invested in an alternative option which takes account ESG risks; however, this fund is now closed to new members. At this time, it does not believe there are any ESG-focused investment options available that meet its needs in any asset classes other than equity but will keep this under review.

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. However, it recognises the importance of offering a suitable range of investment options for members who wish to express an ethical preference in their pension saving and so has suitable options available.

The IC proactively monitors all of the Plan's active investment managers. In addition to the usual quarterly monitoring, the active investment managers are required to attend IC meetings periodically. These Manager presentations provide an opportunity for the IC to discuss responsible investment along with other aspects of the manager's mandate and are considered an important aspect of these discussions.

In addition to the above the IC also undertakes the following:

- When appointing new active investment managers, their approach to socially responsible investment and environmental, social and governance factors is incorporated into the selection process and referenced in their Investment Management Agreements.
- The IC reviews the Plan's responsible investment policy, typically once a year. The latest investment manager policies are also reviewed and developments in responsible investment are discussed.
- The Plan monitors whether its Investment Managers are signatories of the UN Principles for Responsible Investment (PRI). The IC encourages investment managers to become PRI signatories and requests explanations where they are not.

8. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and

3694220 exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

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The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Plan overall. The Trustee's investment powers are set out within the Plan's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of 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;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its 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 content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

Page 13 of 27 Whilst the Plan Trustee has ultimate responsibility for decision making on investment matters, to ensure that such decisions are taken effectively, the Plan Trustee uses other bodies either through direct delegation or in an advisory capacity. These groups include:

- Investment Committee
- Property Trustee (Pearson Pension Property Trustee Limited)
- Member Engagement Working Party
- Investment Managers and Custodian
- External Advisors such as the Scheme Actuary and Investment Adviser
- In house Pensions department.

Each group has a range of responsibilities which have been agreed by the Plan Trustee.

2. Platform provider

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers; and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- 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 ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee (in respect of the Final Pay sections) and investment platform provider (in respect of the Money Purchase sections) with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy (in respect of the Final Pay sections);
- advising on a suitable fund range and default strategy for the Plan, and how material changes to legislation or within the Plan's benefits and membership may impact this (in respect of the DC sections);
- 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); and
- participating with the Trustee in reviews of this SIP.

5. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Trustee has agreed Terms of Business with the Plan's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The fund 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 fund managers.

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

The Trustee has appointed a custodian in respect of the Plan's investments. The custodian fees are calculated using a mixture of fixed fee, a line item charge and market value of asset held. The fee rates are believed to be consistent with the custodian's 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 the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

6. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

7. Working with the Plan's employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Plan in order to meet its 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. Risk capacity is a measure of the extent to which the Trustee, can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity for the Final Pay sections, the Trustee considered a range of qualitative and quantitative factors, including:

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

When assessing risk appetite and risk capacity for the DC sections, the Trustee has addressed these issues by ensuring that, given the ways in which members can take their benefits, a range of investment options have been made available that take account of members' reasonable risk/return preferences as well as a default option for those who do not wish to make their own choice.

2. Approach to managing and monitoring risks

The Trustee considers that there are a number of different types of investment and non-investment risks in relation to both the Final Pay and DC sections that are important to manage and monitor. These include, but are not limited to:

Risk	Final Pay Sections	Defined Contribution Sections
<p>Funding Insufficient assets to cover accrued liabilities.</p>	<p>Managed by careful structuring of the funding and investment arrangements, along with regular monitoring.</p>	<p>The liabilities equal the assets, but there is a related risk of not meeting members' reasonable expectations in terms of pension proceeds on retirement, bearing in mind members' contributions and fund choices. This is managed through careful design of the lifecycle strategies and offering an appropriate fund range, along with regular monitoring.</p>
<p>Mismatching A difference in the sensitivity of asset and liability values to financial and demographic factors.</p>	<p>This is considered when setting the investment strategy and managed through regular reviews of the investment strategy.</p> <p>The Insurance portfolio is expected to perfectly match the liabilities of the insured members.</p>	<p>The liabilities equal the assets, but there is a related risk of not meeting members' reasonable expectations in terms of pension proceeds on retirement, and this will be subject to interest rate and inflation risk. The assets are subject to interest rate and inflation risk because some of the assets are invested in bonds via pooled funds. The Trustee considers the interest and inflation risk exposure appropriate in the context of the overall range of investment options. This is managed through careful design of the lifecycle strategies and offering an appropriate fund range, along with regular monitoring.</p>
<p>Interest Rate The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. These fluctuations will affect the valuations of both assets and liabilities (the Scheme Actuary values the Final Pay sections liabilities with reference to UK Government bond yields).</p>	<p>This is managed by formal review of the sensitivity between the assets and liabilities after each triennial valuation, or if there are any significant changes to the profile of the liabilities, or major changes in investment markets.</p> <p>The Insurance portfolio is expected to perfectly match the liabilities of the insured members.</p>	<p>The liabilities equal the assets, but there is a related risk of not meeting members' reasonable expectations in terms of pension proceeds on retirement, and this will be subject to interest rate and inflation risk. The assets are subject to interest rate and inflation risk because some of the assets are invested in bonds via pooled funds. The Trustee considers the interest and inflation risk exposure appropriate in the context of the overall range of investment options. This is managed through careful design of the lifecycle strategies and offering an appropriate fund range, along with regular monitoring.</p>
<p>Inflation The risk that the fair value or future cash flows from an investment will fluctuate due to changes in realised or expected inflation. The Plan's liabilities are often directly linked to inflation and the risk is that the assets do not also have this sensitivity.</p>		

<p>Longevity Related to the increasing life expectancy of pensioners and policy holders. This can result in higher than expected payout.</p>	<p>This is currently managed by including a buffer in the targeted returns and a funding reserve in the Main portfolio; and through the purchase of buy-in policies held within the Insurance portfolio.</p>	<p>Not applicable since members decide how to take their own benefits.</p>
<p>Credit The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.</p>	<p>This is managed by ensuring that appropriate guidelines are in place. The Trustee receives regular reports from the managers setting out the extent of credit risk within their portfolios and, in particular, whether any agreed guidelines have been breached.</p> <p>For the Insurance Portfolio the Plan is exposed to the risk that an insurer defaults on its obligation to pay the pensions of the insured members. This risk is mitigated as the two policies have been purchased on a collateralised basis. Collateral pools are held within accounts in the Plan's name at the Plan's Custodian. Should the insurer fail, the Trustee takes back the collateral pool.</p>	<p>The Plan's Defined Contribution sections are subject to credit risk associated with the underlying investments. A wide range of funds are available to allow members to suitably diversify their investments to manage this risk. This is also considered when setting the lifecycle strategies.</p>
<p>Currency The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.</p>	<p>The Plan assets are, for the most part, Sterling denominated, as are the Plan's liabilities. A small level of currency risk remains in relation to the investment in overseas assets.</p> <p>The Trustee takes a long-term view on currency risk and accepts some of the short-term volatility in currency markets to avoid the costs associated with currency hedging.</p>	<p>The Trustee has discussed currency risk for Defined Contribution sections members and determined that members are reasonably well protected in the Lifecycle strategies given that the risk relates primarily to the global equity exposure which is reduced from 15 years before retirement. Members who self-select their own funds can manage this risk themselves and all members are made aware of the currency risks in relation to relevant investments through the available literature.</p>

<p>Other Price The risk that the fair value or future cash flows of a financial asset will fluctuate as all investments are subject to idiosyncratic price risks.</p>	<p>These risks are managed by ensuring that the portfolio is well diversified both across asset classes and within each individual asset class. In addition, the Trustee takes advice from its investment consultant as to the continuing suitability of the asset classes and managers in which it invests.</p>	<p>Other price risks are managed through regular reviews of the investment strategy and fund managers.</p>
<p>Investment managers This risk arises from a failure to meet target returns.</p>	<p>This is managed by the Investment Committee which closely monitors the performance of the managers and receives formal quarterly reports from the investment consultant giving views on each manager's continuing appropriateness. Prior to appointing an investment manager, the Trustee also receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise.</p>	
<p>Diversification This risk relates to an inadequate spread of investments and sources of return.</p>	<p>This is managed by spreading the Plan's investments over a range of asset classes and is considered as part of each investment strategy review.</p>	<p>The Trustee has selected a wide range of funds to be available to allow members to suitably diversify their investments to manage this risk. This is also considered when setting the lifecycle strategies.</p>
<p>Covenant This risk relates to the possibility of the failure of the Plan's sponsor.</p>	<p>This risk is managed through the appointment of an independent third-party covenant advisor and regular monitoring of a number of key metrics.</p>	<p>The payment of DC pots would not be impacted by the failure of the Plan sponsor.</p>
<p>Pension Conversion There are risks relating to the point of retirement for members and the approach they take to retirement, in other words whether they take cash, transfer to an income drawdown provider or purchase an annuity.</p>	<p>Not applicable as these risks are borne by the Plan not the members.</p>	<p>These risks are considered when designing the lifecycle strategies and determining the fund range and are managed through regular monitoring.</p>

<p>Cash flows This risk relates to a shortfall of liquid assets relative to the Plan's immediate liabilities.</p>	<p>This is managed by regular monitoring of liquidity levels and expected outgo.</p>	<p>All of the funds used are daily dealt so sufficient liquidity should be available to members if they required cash for any outflow. For some asset classes there is a small risk of temporary suspension of daily dealing. These would be dealt with on a case by case basis but are mitigated by the small proportion of assets involved.</p>
<p>Operational This risk relates to fraud, poor advice or negligence.</p>	<p>Operational risk is reduced as far as possible by due diligence on the appointment and review of managers and advisers, and by contracts of engagement. Additional controls are provided by the regular reviews of the Plan and its operations carried out by the Pensions team and external auditors.</p>	
<p>Political This is the risk of an adverse influence on investment values arising from political intervention.</p>	<p>It is managed through regular reviews of the investment strategy, and fund managers. Relevant government consultations will be discussed with the investment consultant in advance of any anticipated changes.</p>	
<p>Environmental, social and corporate governance (ESG) and climate related factors This risk relates to insufficient consideration of ESG and climate related factors.</p>	<p>ESG factors are sources of risk to the Plan's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.</p>	

Details of the investment managers, their objectives, and investment guidelines and custody arrangements are set out below.

The Final Pay Sections

1. Insurance Portfolio

The Plan holds two insurance policies, details of which are outlined below.

Insurer	Objective
Aviva Life & Pensions UK Limited	To make payments to the Plan which are expected to match the benefit payments of the insured members.
Legal and General Assurance Society Limited	To make payments to the Plan which are expected to match the benefit payments of the insured members.

2. Matching Assets

The Plan's assets invested in matching asset classes are outlined below.

Investment Manager	Objective
Legal & General Investment Management	To manage a bespoke Liability Driven Investment mandate, benchmarked against the Plan's expected liability cashflows. This mandate includes UK fixed interest government securities, UK index-linked government securities, interest rate and inflation swaps and other derivative instruments or bonds as appropriate.
LaSalle Investment Management	To manage a portfolio of RPI linked properties.
Infrared Capital Partners	To manage an infrastructure portfolio.
Aberdeen	To manage an infrastructure portfolio.
Aegon	To manage a credit portfolio. The core of the portfolio will be sterling investment grade corporate bonds, and the portfolio will be managed on a 'buy and maintain' basis.

To invest in a diversified portfolio of trade finance instruments, predominantly sourced from the US, Canada and Europe.

3. Return Seeking Assets

The Plan's assets invested in Return Seeking assets are outlined below:

Investment Manager	Objective
LaSalle Investment Management	To manage a portfolio of property investments.
Pantheon Ventures	To manage a portfolio of Unquoted Equity 'Fund of Funds'. Pantheon invests in a range of different Fund of Fund products which provide the Plan with diversification across global regions (US, Europe and Asia), strategies and vintages.
EQT	The EQT Fund will make primarily controlling and co-controlling investments in infrastructure investments located in Northern and Eastern Europe with the flexibility to invest globally.
Alinda	To invest in large economic infrastructure assets, predominantly from the secondary market. These assets will predominantly be sourced from the US and Western Europe.
Meridiam	To manage an infrastructure portfolio with an emphasis on the Transportation (primarily roads) and Social sectors in Continental Europe.
CB Richard Ellis	To manage a diversified exposure to pan-European real estate (excl. UK) through investment in Investment Funds and/or Property Related Assets.

4. Custodian

The Trustee employs Bank of New York Mellon (BNY Mellon) as the Plan's global custodian and monitors its ongoing suitability on a periodic basis. A list of responsibilities has been devised for the custodian.

5. Additional Voluntary Contributions

The Plan provides a facility for members to pay AVCs to enhance their benefits at retirement. The members are offered a range of funds in which to invest their AVC payments. This includes the option to pay AVCs to the funds outlined below, or the Cash Lifecycle Option (which is the default option for existing members with AVC benefits within the Plan who do not have assets invested in the Drawdown Lifecycle, or are DB members with AVC benefits who do not have assets invested in the Money Purchase or Auto Enrolment sections of the Plan). In other cases, the default for AVC contributions is the Drawdown Lifecycle Option.

The Defined Contribution Sections

A list of funds that are currently provided are shown below, along with their investment objectives

Fund	Objective
Blended Global Equity Fund	The fund aims to provide returns consistent with the composite benchmark by investing in a range of funds that provide exposure to global equities, including emerging markets.
MFS Meridian Global Equity Fund	An actively managed fund invested in a portfolio of equity securities of global issuers. The Fund aims to outperform the MSCI World Index.
BlackRock UK Equity Index Fund	A passively managed fund invested in shares of UK companies which aims to achieve a return that is consistent with the return of the FTSE All Share Index.
Blended Multi Asset Fund	The fund invests with one or more investment managers with the aim of providing long term growth in excess of inflation. The Fund may invest in a broad range of asset classes which might include global equities, fixed income, property and other assets. For efficiency purposes, the fund may use derivatives.
BlackRock World (ex-UK) Equity Index Fund	A passively managed fund primarily invested in shares of overseas companies, with a performance objective of achieving a return in line with the FTSE All-World Developed ex-UK Index.

Page 24 of 27	Threadneedle Pensions Property Fund	An actively managed fund invested in property with a performance objective of achieving a return above the AREF/IPD UK Quarterly Property Fund Index.
	Blended Index Linked Gilt Fund	The fund aims to perform in line with its benchmark by investing in a range of funds that provide exposure to both long and short dated UK index-linked gilts.
	Annuity Targeting Fund	The fund invests with one or more investment managers with the aim of providing diversified exposure to assets that reflect the investments underlying a typical traditional annuity product.
	BlackRock Over 15 Year Corporate Bond Fund	A passively managed fund primarily invested in investment grade corporate bonds denominated in Sterling that have a maturity period of 15 years or longer. The fund aims to achieve a return in line with the iBoxx Sterling Non-Gilts Over 15 Years Index.
	BlackRock Over 15 Year Gilt Index Fund	A passively managed fund primarily invested in UK government fixed interest securities that have a maturity period of 15 years or longer. The fund aims to achieve a return in line with the FTSE UK Gilts Over 15 Years Index.
	Short Duration Credit Fund	The fund invests with one or more managers in a range of fixed income securities, predominantly those with short-term maturities of 5 years or under. The fund aims to outperform the benchmark.
	BlackRock Sterling Liquidity Fund	The fund seeks to maximise current income consistent with the preservation of capital and liquidity through the maintenance of a portfolio of high quality short-term "money market" instruments.
	Jupiter Ecology Fund (closed to new members)	An actively managed fund invested worldwide in companies that demonstrate a positive commitment to the long-term protection of the environment. The fund aims to provide long term capital growth consistent with a policy of protecting the environment. The fund measures performance relative to the FTSE World and the FTSE Environmental Technology 100 Index.

Page 25 of 27	BMO Responsible Global Equity Fund	The fund aims to provide long-term capital growth. It seeks to achieve this by investing in companies screened against defined responsible and sustainable criteria, including exclusions on tobacco, alcohol, weapons, gambling, nuclear and pornography. The fund also requires companies to meet sector standards on social and environmental impacts, including systems for managing labour standards, human rights, supply chains, environmental impacts, water, waste and biodiversity.
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6. Lifecycle strategies

The aim of the Lifecycle Options is to ensure that members' funds are invested in appropriate funds at the appropriate time, based on their age and the number of years until their selected retirement date. Each Lifecycle Option uses a combination of the funds listed above. Lifecycle Options' strategies involve a phased switching approach as described below:

The Drawdown Lifecycle is the main default Lifecycle Option for the DC sections of the Plan and initially invests in the Blended Global Equity Fund. Starting from 15 years from retirement this holding is gradually switched into the Blended Multi Asset Fund such that 12 years from selected retirement age the member is invested 72% in the Blended Global Equity Fund and 28% in the Blended Multi Asset Fund. 12 years from retirement the Short Duration Credit Fund and the Blended Index Linked Gilt Fund are gradually incorporated such that at retirement members are invested in the following proportions: 32% Blended Global Equity Fund, 28% Blended Multi Asset Fund, 20% Short Duration Credit Fund and 20% Blended Index Linked Gilt Fund. The Drawdown Lifecycle is also the default Lifecycle Option for the AVC benefits of members with assets invested in the Money Purchase or Auto Enrolment sections of the Plan.

The Cash Lifecycle invests members' money in the same way as the main DC default Lifecycle Option until 5 years before retirement, when the member is gradually switched to 100% invested in the BlackRock Sterling Liquidity fund at retirement. The Cash Lifecycle is also the default Lifecycle Option for existing members with AVC benefits within the Plan who do not have assets invested in the Drawdown Lifecycle, or are DB members with AVC benefits who do not have assets invested in the Money Purchase or Auto Enrolment sections of the Plan. The Plan also makes this Lifecycle Option available for members to self-select.

The Annuity Lifecycle is the Plan's legacy default for the DC sections but is no longer a current default for members. It invests members' money in the same way as the current default Lifecycle Option until 5 years before retirement, when the member is gradually switched into a combination of 75% Annuity Targeting Fund and 25% BlackRock Sterling Liquidity fund at retirement allocation. The Plan also makes this Lifecycle Option available for members to self-select.

7. The Default strategies

7.1. Requirement for a default

The Plan Trustee is required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustee has designated the Drawdown Lifecycle (as outlined above) as the main DC default arrangement for the Plan and the default arrangement for AVC assets for new and existing members that have assets invested in the Money Purchase and Auto Enrolment sections. This does not apply; however, to AVC benefits where the member has no assets already invested in the Drawdown Lifecycle through the Money Purchase or Auto Enrolment sections, or is a DB member with AVC benefits but no assets in these aforementioned DC sections.

The Trustee has designated the Cash Lifecycle as the default arrangement for AVC assets within the Plan where existing members do not have assets invested in the Money Purchase and Auto Enrolment sections, or are DB members with AVC benefits who do not have assets invested in the Money Purchase or Auto Enrolment sections of the Plan.

7.2. Default design

The default Lifecycle strategies were constructed following analysis of the membership of the Plan. This analysis took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of member in order to test alternative investment strategies. The design of the default Lifecycle strategies reflect this analysis having carried out multiple simulations of future economic and investment scenarios.

7.3. Objectives of the default Lifecycle strategies

The aim of all the default Lifecycle strategies is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to equity and diversified growth funds and then to gradually diversify their investments in the years approaching retirement, in order to reduce volatility while still providing suitable exposure to growth assets. The asset allocation throughout the default Lifecycle strategies and the phasing of the gradual switching of investments takes into account members' greater capacity for risk early on and reduced capacity for risk in later years.

7.4. Default created as result of temporary suspension of the Threadneedle Pensions Property Fund

This default option is a fixed allocation to the BlackRock Sterling Liquidity Fund and targets cash withdrawal at retirement, since the Trustee believes this is the most appropriate alternative for these contributions given the temporary suspension of the Property Fund and the inability for the Trustee to exercise members' choice to invest in the Property Fund for any contributions invested during the suspension period. The aims and objectives of the strategy are that the fund aims to maximise current income consistent with the preservation of capital and liquidity through the maintenance of a portfolio of high quality short-term "money market" instruments and to achieve an investment return that is in line with its benchmark.

7.5. Reviewing the defaults

The default strategies will be reviewed periodically with reference to the manner in which members are expected to take their benefits from the Plan. This periodic review will also take into account any significant changes in the demographic profile of the relevant members, changes in available investment options and market conditions.

7.6. Compliance with the investment Regulations

The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out in the previous sections.

Implementation Statement, covering 1 January 2022 to 31 December 2022

The Trustee of the Pearson Pension Plan (the “Plan”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information on the last review of the SIP is provided in Section 1. Information on the implementation of the SIP is provided in Sections 2 to 11.

The Statement is also required to include a description of the voting behaviour during the Plan year by, and on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 12 below.

In preparing the Statement, the Trustee has had regard to the [guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions \(“DWP’s guidance”\) in June 2022.](#)

This Statement is based on and uses the same headings as the Plan’s SIP (in line with the latest available version at the time of writing, dated 31 May 2022). This Statement should be read in conjunction with the SIP. The latest version of the SIP can be found here <https://www.pearson-pensions.com/go/statement-of-investment-principles>.

1. Introduction

The SIP was reviewed and updated during the Plan year on 31 May 2022 to reflect the introduction of an allocation to Trade Finance for the Final Pay section of the Plan.

As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed all of the policies in the Plan’s SIP during the year.

No changes were made to the voting and engagement policies in the SIP during the Plan year. The Trustee has, in its opinion, followed the Plan’s voting and engagement policies during the period.

2. Investment objectives

2.1. Defined Benefit (“Final Pay”) Sections

Progress against the long-term funding target was reviewed as part of the quarterly monitoring reports. The Trustee is also able to view the progress on an ongoing basis using an online tool provided by the Scheme Actuary to the Plan, which shows key metrics and information on the Plan.

2.2. Money Purchase and Auto Enrolment Sections (Defined Contribution (“DC”) Sections)

As part of the performance and strategy review of the DC default arrangements which began on 10 June 2020 the Trustee considered the DC Section membership demographics, projected pot sizes at retirement and the variety of ways that members may draw their benefits in retirement from the Plan. This review also considered the range of alternative strategies and funds that members may choose from.

Based on the outcome of this analysis, the Trustee concluded that the relevant default strategies remained appropriate to meet the long and short-term investment requirements of the majority of DC and DB AVC members and have been designed to be in members’ best interests reflecting the Plan’s member demographics.

The drawdown lifecycle is the current default arrangement for both DC Sections and for members who make Additional Voluntary Contributions (“AVCs”) and have assets invested in the drawdown lifecycle through the DC sections. For members whose needs may not be met by their section’s default arrangement, the Trustee has made available the two additional lifecycles, the cash lifecycle or the annuity lifecycle. The latter targets annuity purchase at retirement. The cash lifecycle remains the default arrangement for members who make AVCs and do not have assets invested in the drawdown lifecycle through the DC sections, and for DB members who make AVCs but have no benefits in the DC sections.

The Trustee also provides members with access to a range of self-select fund investment options covering all major asset classes, which it believes are suitable for this purpose and enable appropriate diversification. These fund options are set out in the Plan's SIP. The Trustee continues to believe the range of funds offered are suitable. The Trustee monitors the take up of these funds and take up has been broadly in line with the market.

The Trustee reviewed the membership demographics, choices, behaviours and trends as part of the last formal strategy review which started on 10 June 2020. The next review of these areas began on 22 March 2023 and remains ongoing at the time of publishing this document.

3. Investment strategy

3.1. Final Pay Sections

Following the update to the SIP in May 2022, the trade finance mandate was funded through disinvestments from the LDI and short-dated credit mandates and a transfer from the trustee bank account. The LDI mandate was later topped-up from proceeds from the short-dated credit mandate.

The Trustee monitors the asset allocation as part of the quarterly monitoring reports, and it is understood that the allocation to each asset class will vary, due to market movements.

3.2. Defined Contribution Sections

The Trustee did not review the DC investment strategy over the Plan year but did consider the impact of high inflation on the different lifecycles. The drawdown lifecycle remained the most appropriate default for DC Section members and members with both DC and DB AVC assets. The cash lifecycle remained appropriate for DB AVC members.

Within the self-select fund range, the Plan's BlackRock sterling liquidity fund was still regarded as a default for governance purposes following the redirection of all property fund contributions due to a suspension of the Threadneedle Pensions Property Fund in May 2020. The redirection of future contributions ceased when the fund reopened in September 2020; however, members had to make a selection to move any contributions redirected over the period of the suspension and there are still a small number of members who still have money in the sterling liquidity fund. Communication with these members is being considered as part of the ongoing triennial investment strategy review.

The Trustee reviewed retirement data as part of the previous strategy review undertaken in 2020, but has not been reviewed over the Plan year.

4. Considerations in setting the investment arrangements

When the Trustee made the allocation to trade finance in the Final Pay Section in May 2022, it had considered the investment risks set out in Appendix 2 of the SIP. It also considered a wide range of asset classes for investment, considering the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

When the Trustee undertook a performance and strategy review of the DC default arrangements in 2020 and 2021, it considered the investment risks set out in Appendix 2 of the SIP. It also considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

Following developments in investment markets and a review of recent evidence of the financial materiality of climate-related risks and related discussions, the Trustee has been reviewing its DC Section investment manager mandates to understand the extent to which Environmental, Social and Governance ("ESG") climate factors are incorporated in the funds currently available in the DC Section of the Plan, and where enhancements can be made. The Trustee also conducted climate scenario analysis during the Plan year to understand the key climate-related risks and opportunities faced by the Plan and how these can be managed in the investment strategy. This is being considered further as part of the default investment strategy review in 2023.

5. Implementation of the investment arrangements

The Trustee's trade finance mandate implemented over the Plan year provides a diversified portfolio of trade finance instruments, predominantly sourced from the US, Canada and Europe for the Final Pay sections of the Plan over the period. The Trustee obtained formal written advice from its investment adviser, LCP, before investing in the funds and made sure the investment portfolio within the funds were adequately and appropriately diversified.

Before appointing the manager, the Trustee received information on the investment process and philosophy, the investment team and past performance. The Trustee also considered the managers' approaches to responsible investment and stewardship.

The Trustee invests for the long term, to provide the promised benefits for the Plan's members and dependents. To achieve good outcomes for members and beneficiaries over this investment horizon, the Trustee therefore seeks to appoint managers whose stewardship¹ activities are aligned to the creation of long-term value and the management of long-run systemic risks.

The Plan's investment advisers monitor all the investment managers on an ongoing basis, through regular research meetings. The investment advisers monitor any developments at the managers and informs the Trustee promptly about any significant updates or events they become aware of that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Plan invests in, or any material change in the level of diversification in the funds. No significant concerns have been raised in relation to the majority of the Plan's current investment managers over the year other than the fund noted below.

The Trustee monitors the performance of the Plan's investment managers on a quarterly basis, using the quarterly monitoring reports. Both the Final Pay report and the DC Section report showed the performance of each manager over the quarter, 1 year and 3 years. Performance is considered in the context of the manager's benchmark and objectives. The Trustee also monitors its managers' responsible investment capabilities using scores provided by its investment adviser, on a quarterly basis as part of the standard monitoring reports as well as a more detailed annual review of each manager's ESG and stewardship practices.

During the year to 31 December 2022, most managers struggled given the challenging market conditions over the period, with inflationary pressures and rising interest rates negatively impacting short- and therefore longer-term returns. As a result, most of the Plan's active managers underperformed their targets during the year.

The Trustee evaluates manager performance over both shorter and longer periods, encourages managers to improve practices and considers alternative arrangements where managers are not meeting performance objectives. In the context of the difficult market environment in 2022, the Trustee was comfortable with the majority of its investment manager arrangements over the year. However, the Trustee has concerns regarding the expected future performance of one fund within the diversified growth fund used in the Plan's DC Section and will be reviewing the fund as part of the strategy review. The Trustee is also currently reviewing investment options that incorporate ESG and/or climate-related matters, to determine if they would be suitable for inclusion in the DC Sections of the Plan.

The Trustee undertook a value for members assessment in June 2023 for the Plan year to 31 December 2022 which considered a range of factors, including the fees payable to managers in respect of the DC Section, which were found to be reasonable when compared against schemes with similar sizes mandates.

During the year the Trustee also carried out an annual assessment of the Final Pay investment managers' fees. Overall, the Trustee believes the investment managers provide reasonable value for money, and the Trustee continues to work with its investment adviser to achieve competitive fees for its investment mandates.

6. Realisation of investments

6.1. Final Pay Sections

The Trustee reviews the Plan's net current and future cashflow requirements on a regular basis. The Trustee's policy is to have access to sufficient liquid assets to meet any outflows whilst maintaining a portfolio which is appropriately diversified across a range of factors, including a suitable balance between both liquid and illiquid assets.

The Trustee receives income from the Plan's illiquid property, infrastructure investments and buy-in providers, which is retained in the Trustee bank account and used towards paying benefit payments. The Trustee also receives income from the bonds held in the short duration credit portfolio. This is retained as cash within the portfolio, so that it can be used to help meet benefit payments, if required, or reinvested back into the portfolio if not.

¹ The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

6.2. Defined Contribution Sections

It is the Trustee's policy to invest in funds that offer daily dealing to enable members to readily realise and change their investments. All of the DC Section funds which the Trustee offered during the Plan year are daily priced.

7. Consideration of financially material and non-financial matters

During the Plan year, the Trustee received training on climate-related topics, such as scenario analysis and climate metrics, in order to deepen its understanding of climate change and enhance the Plan's management of climate-related risks and opportunities. The Trustee also received training on the climate approaches of its managers. This was in line with the Trustee's regulatory obligations in preparation for its first Taskforce for Climate-related Financial Disclosures (TCFD) report.

As part of its advice on the selection and ongoing review of the investment managers, the Plan's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

In March 2022, the Trustee reviewed LCP's responsible investment (RI) scores for the Plan's existing managers and funds, along with LCP's qualitative RI assessments for each fund, and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. Fund scores and assessments are based on LCP's ongoing manager research programme, while manager scores and red flags are based on LCP's Responsible Investment Survey 2022. The Trustee was satisfied with its reviews of the RI scores and no further action was taken.

The DC section includes an equity investment option as a choice for members who wish to invest in a fund focused on ESG risks. At this time, the Trustee does not believe there are any ESG-focused investment options available that meet its needs in any asset classes other than equity but will keep this under review. The Trustee also continues to review investment options that incorporate ESG and/or climate-related matters, to determine if they would be suitable for inclusion in the DC Sections of the Plan.

The Trustee does not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

8. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. The investment managers' stewardship policies are:

- BlackRock: [BlackRock Investment Stewardship](#)
- Baillie Gifford: [Our Stewardship Approach: ESG Principles and Guidelines \(bailliegifford.com\)](#)
- Schroders: [Voting - Schroders global - Schroders](#)
- Newton: [Responsible investment policies and principles \(newtonim.com\)](#)
- MFS: [Responsible Investing Policy Statement \(mfs.com\)](#)
- Columbia Threadneedle: [Responsible Investment - Engagement policy and approach.pdf \(columbiathreadneedle.com\)](#)
- Jupiter: [Jupiter Stewardship Policy](#)

However, the Trustee takes ownership of the Plan's stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Plan's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

Following the introduction of DWP's guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. At the Q4 2022 meeting, the Trustee

received training on, discussed and agreed stewardship priorities for the Plan which were Climate change and Corporate Transparency. These priorities were selected because managers have well-developed climate change policies and data on corporate transparency, allowing the Trustee to better assess managers' practices and ensure they are aligned with the Trustee's expectations.

The Trustee communicated these priorities to its managers in January 2023. The Plan's managers acknowledged the Trustee's priorities and its expectations of the managers and shared relevant information on their approaches to stewardship. The Trustee will include information in line with the newly agreed process from next year's statement.

The Trustee regularly invites the Plan's investment managers to present at Trustee meetings, where the Trustee and its consultants seek to engage and challenge the managers where appropriate. For example, in June 2022 the Trustee met with Newton to discuss the Newton Real Return Fund.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

9. Investment governance, responsibilities, decision-making and fees (Appendix 1 of SIP)

The Trustee has set out in Appendix 1 of the SIP the division of responsibilities and decision making in connection with the Plan's investments. The Trustee remains ultimately responsible for the Plan's investments, but it has delegated oversight of the Plan's investment to the Investment Committee.

As mentioned in Section 5 of this Statement, the Trustee assessed the performance of the Plan's investments on an ongoing basis as part of the quarterly monitoring reports it receives.

The performance of the professional advisers is considered on an ongoing basis by the Trustee.

The Trustee has put in place formal objectives for its investment adviser and reviews the adviser's performance against these objectives on a regular basis, with the last review being carried out in November 2022.

The Trustee carries out an annual evaluation of how its board and committees are run. In 2022, the Trustee was satisfied with the results of this evaluation, and the Trustee believes it is well placed to fulfil its role as Trustee to the Plan.

10. Policy towards risk (Appendix 2 of SIP)

Risks are monitored on an ongoing basis with the help of the investment adviser.

The Trustee maintains a risk register, and this was discussed at the October 2022 Audit and Risk Committee ("ARC") meeting and at the Trustee board meeting immediately following this ARC meeting.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the Plan's investment adviser or information provided to the Trustee by the Plan's investment managers. These include credit risk, equity risk, currency risk and counterparty risk.

The Plan has buy-ins with two providers, which are collateralised in order to provide extra security. The Trustee has reviewed the collateral adequacy of its buy-in providers on a monthly basis over the year and was satisfied that there were no issues over the year.

With regard to the risk of having insufficient assets in the Final Pay Sections to cover liabilities, the required return for the Plan to meet expected benefit payments on the Long-Term Funding Target basis was monitored as part of the quarterly monitoring reports, along with the best estimate expected return of the Plan's current investment strategy.

With regard to mismatching risk, the Plan's interest and inflation hedging levels were monitored on an ongoing basis in the quarterly monitoring report and periodically rebalanced.

With regard to the risk of not meeting members' reasonable expectations in terms of pension proceeds on retirement for the DC Sections, the Trustee makes use of equity and equity-based funds, which are expected to provide positive returns above inflation over the long term. These are used in the growth phase of the default

option and are also made available within the self-select options. These funds are expected to produce adequate real returns over the longer term.

Together, the investment and non-investment risks set out in Appendix 2 of the SIP give rise generally to funding risk. The Trustee formally reviewed the Plan's funding position as part of its annual actuarial report to allow for changes in market conditions. On a triennial basis the Trustee reviews the funding position allowing for membership and other experience. During the year, the Trustee was in the process of reviewing this as part of the last triennial valuation at the 1 January 2021 Valuation. The Trustee also informally monitored the funding position more regularly, on a quarterly basis at Trustee meetings and the Trustee Directors also have the ability to monitor this daily.

The following risks are covered earlier in this Statement: diversification risk in Sections 3 and 5, investment manager risk and excessive charges in Section 5, illiquidity/marketability risk in Section 6 and ESG risks in Section 7.

11. Investment manager arrangements (Appendix 3 of SIP)

There are no specific policies in this section of the Plan's SIP, which sets out details of the Plan's investment managers and their investment guidelines. During the period covered by this Statement, the Trustee updated this section to take into account changes to the DC investment managers, and to better reflect the Trustee's arrangements with its existing managers.

12. Description of voting behaviour during the year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the year. However, the Trustee monitors managers' voting and engagement behaviour on a regular basis and challenges managers where their activity has not been in line with the Trustee's expectations.

In this section we have sought to include voting data on the Plan's funds, in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance. In order to take a pragmatic approach, we have only included funds that hold a significant proportion of their assets in equities and that represent a significant proportion of the overall DC assets. Therefore, we have only included funds used in the DC default strategy given the high proportion of DC assets invested in these funds:

- BlackRock World Equity Index Fund;
- BlackRock Fundamental Equity Index Fund;
- BlackRock Minimum Volatility Index Fund;
- BlackRock World Emerging Markets Equity Index Fund;
- Baillie Gifford Multi Asset Growth Fund;
- Schroders Sustainable Future Multi Asset Fund; and
- Newton Real Return Fund.

If Plan members require any further information on voting behaviour for a fund not set out in the Implementation Statement, they can send a message via the 'Contact Us' page of the Plan website (<https://www.pearson-pensions.com/contact-us/>) and the pensions team will supply any further information, to the extent available.

In addition to the above, the Trustee contacted the Plan's Final Pay Section investment managers that do not hold listed equities, to ask if any of the assets held by the Plan had voting opportunities over the period. The Trustee also contacted the Plan's buy-in providers, to ask if any of the assets held to back members' insured liabilities had any voting rights over the period. These managers and annuity providers all confirmed that none of the assets in question had material voting opportunities over the period that were not simply votes on fund terms.

12.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place. The Trustee reviewed these policies, focusing on the elements which relate to its stewardship priorities, and is comfortable that the policies are aligned with the Trustee's views

BlackRock

BlackRock's approach to corporate governance and stewardship is explained in its Global Principles document (available on its website) which describes its philosophy on stewardship, its policy on voting, its integrated approach to stewardship matters and how it deals with conflicts of interest.

The BlackRock Investment Stewardship team and its voting and engagement work continuously evolve in response to changing governance related developments and expectations. BlackRock's voting guidelines are market-specific to ensure BlackRock takes into account a company's unique circumstances by market, where relevant. BlackRock informs its vote decisions through research and engages as necessary. Its engagement priorities are global in nature and are informed by BlackRock's observations of governance related and market developments, as well as through dialogue with multiple stakeholders, including clients. BlackRock may also update its regional engagement priorities based on issues that it believes could impact the long-term sustainable financial performance of companies in those markets. BlackRock welcomes discussions with its clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them. As outlined in its Global Principles, BlackRock determines which companies to engage directly with, based on its assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of its engagement being productive. BlackRock's voting guidelines are the benchmark against which it assesses a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. It applies its guidelines pragmatically, taking into account a company's unique circumstances where relevant.

BlackRock aims to vote at all shareholder meetings of companies in which its clients are invested. BlackRock does not support impediments to the exercise of voting rights and will engage regulators and companies about the need to remedy the constraint. Whilst BlackRock does subscribe to research from proxy advisory firms, ISS and Glass Lewis, this is just one among many inputs into its voting decision process. Other sources of information BlackRock uses include the company's own reporting, its engagement and voting history with the company, the views of its active investors, public information and ESG research.

Baillie Gifford

All Baillie Gifford's voting decisions are made by its Governance & Sustainability team in conjunction with investment managers. Thoughtful voting of Baillie Gifford's clients' holdings is an integral part of its commitment to stewardship. Baillie Gifford believes that voting should be investment led, because how it votes is an important part of the long-term investment process, which is why its strong preference is to be given this responsibility by its clients. Unlike many of its peers, Baillie Gifford does not outsource any part of the responsibility for voting to third-party suppliers. It utilises research from proxy advisers for information only, including their specialist proxy advisers in the Chinese and Indian markets to provide it with more nuanced market specific information. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and endeavours to vote every one of its clients' holdings in all markets.

Schroders

Schroders evaluates voting resolutions arising at investee companies and, where they have the authority to do so, vote on them in line with their fiduciary responsibilities and in what Schroders deems to be the interests of their clients. The Corporate Governance specialists assess each proposal, applying Schroders voting policy and guidelines (as outlined in the ESG Policy) to each agenda item. In applying the policy, they consider a range of factors, including the circumstances of each company, long-term performance, governance, strategy and the local corporate governance code. Specialists will draw on external research, such as the Investment Association's Institutional Voting Information Services and ISS, and public reporting. Schroders own research is also integral to the process; this is conducted by both financial and Sustainable Investment analysts.

Schroders are not afraid to oppose management if they believe that doing so is in the best interests of shareholders and their clients. Such votes against will typically follow an engagement and they will inform the company of their intention to vote against before the meeting, along with their rationale. Where there have been ongoing and significant areas of concerns with a company's performance they may choose to vote against individuals on the board. However, as active fund managers Schroders usually look to support the management of the companies that they invest in. Where they do not do this, they classify the vote as significant and will disclose the reason behind this to the company and the public.

Newton

Newton has established overarching stewardship principles which guide its ultimate voting decision, based on guidance established by internationally recognized governance principles and other local governance codes. All voting decisions are taken on a case-by-case basis, reflecting Newton's investment rationale, engagement activity and the company's approach to relevant codes, market practices and regulations. These are applied to the company's unique situation, while also taking into account any explanations offered for why the company has adopted a certain position or policy. In general, voting decisions are taken consistently across all Newton's clients that are invested in the same underlying company. This is in line with Newton's investment process that focuses on the long-term success of the investee company. Further, it is Newton's intention to exercise voting rights in all circumstances where it retains voting authority. Overall, Newton prefers to retain discretion in relation to exercising its clients' voting rights and has established policies and procedures to ensure the exercise of global voting rights.

Where Newton plans to vote against management on an issue, it often engages with the company in order to provide an opportunity for its concerns to be allayed. It does alert a company regarding an action it has taken at their annual general meeting to explain its thought process and often communicates further with the company's board/investor relations teams to gain a better understanding of the situation. The Responsible Investment team reviews all resolutions for matters of concern. Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, Newton may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

All voting decisions are made by Newton. Newton uses ISS to administer proxy voting as well as its research reports on individual company meetings. ISS's recommendations will only take precedence in the event of a material potential conflict of interest, which could include registering an abstention, despite Newton's general stance of either voting in favour or against proposed resolutions.

12.2 Summary of voting behaviour over the year

A summary of voting behaviour over the period is provided in the table below.

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6	Fund 7
Manager name	BlackRock	BlackRock	BlackRock	BlackRock	Baillie Gifford	Schroder Life	Newton
Fund name	World Equity Index Fund	Fundamental Equity Index Fund	Minimum Volatility Index Fund	Emerging Markets Equity Index Fund	Multi Asset Growth Fund	Sustainable Future Multi-Asset Fund	Real Return Fund
Total size of fund at end of reporting period	£3,354m	£793m	£644m	£8,835m	£1,173m	£804m	£3,948m
Value of Plan assets at end of reporting period ¹	£133.7m	£133.7m	£133.7m	£30.2m	£26.3m	£26.3m	£26.3m
Number of equity holdings at end of reporting period	1,511	2,988	329	1,367	41	553	66
Number of meetings eligible to vote	934	3,383	340	3,830	89	678	75
Number of resolutions eligible to vote	14,200	41,988	4,961	32,753	933	8,467	1,270
% of resolutions voted	87.4	92.5	96.2	97.3	95.6	93.8	100
Of the resolutions on which voted, % voted with management ^{2,5}	93.9	93.9	94.4	88.0	97.8	89.6	89.1
Of the resolutions on which voted, %	6.1	6.1	5.6	12.0	3.5	9.8	10.9

voted against management ^{2,5}								
Of the resolutions on which voted, % abstained from voting ^{2,5}	0.9	1.5	0.4	4.2	1.2	0.6	0.0	
Of the meetings in which the manager voted, % with at least one vote against management	29.4	28.9	31.5	41.0	18.8	53.4	45.0	
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy adviser	0.4 ³	0.3 ³	0.2 ³	0.6 ³	N/A ⁴	2.5	7.1	

¹ Asset values include the Plan's DC and AVC assets.

² Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.

³ BlackRock does not follow any single proxy research firm's voting recommendations, though it subscribes to two research firms. BlackRock's voting and engagement analysis is determined by several key inputs including a company's own disclosures, and BlackRock's record of past engagements.

⁴ Whilst Baillie Gifford is cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), it does not delegate or outsource any of its stewardship activities or follow or rely upon their recommendations when deciding how to vote on Baillie Gifford's clients' shares. All client voting decisions are made in-house. Baillie Gifford votes in line with its in-house policy and not with the proxy voting providers' policies.

⁵ These figures may not sum to 100% due to rounding.

12.3 Most significant votes over the year

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. Instead, the Trustee has, with support from its advisers, retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria for creating this shortlist. The Trustee will consider the practicalities of informing managers ahead of the vote and will report on it in next year's Implementation Statement.

By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

Commentary on the most significant votes over the period, from the Plan's asset managers who hold listed equities, is set out below. We have interpreted "most significant votes" to mean those that:

- align with the Trustee's stewardship priorities;
- might have a material impact on future company performance;
- the investment manager believes to represent a significant escalation in engagement;
- impact a material fund holding, although this would not be considered the only determinant of significance, rather it is an additional factor;
- have a high media profile or are seen as being controversial;
- are shareholder resolutions which received material support; or
- the Plan or the sponsoring company has a particular interest in.

The Trustee has reported on one of these significant votes per fund only as the most significant votes. If members wish to obtain more information on significant votes, this is available upon request.

BlackRock World Equity Index Fund

Rio Tinto Group, April / May 2022

Summary of resolution: Approve climate action plan

Vote cast: For

Outcome of the vote: Pass

Management recommendation: For

Size of mandate's holding at voting date: 0.14% (London Stock Exchange) / 0.06% (Australian Stock Exchange)

The reason the Trustee consider this vote to "most significant": The resolution relates to the Trustee's climate change stewardship priority.

Rationale for the voting decision: The Rio Tinto Group engages in the exploration, mining, and processing of minerals globally. BlackRock voted for the management proposal seeking shareholders' approval of the Rio Tinto Group's Climate Action Plan, which is described in their report "Our Approach to Climate Change 2021." The Group's climate action plan, targets, and disclosures are consistent with what BlackRock looks for and which BlackRock believes demonstrate management and board responsiveness to shareholder feedback. Accordingly, BlackRock determined that it is in the best interests of its clients as long-term shareholders to support the proposal to approve the Climate Action Plan. The Plan articulates the steps the Group will take in alignment with their commitment to net zero by 2050, which includes setting more ambitious interim targets and clear board oversight. It acknowledges the physical and transition risks that climate change poses across the group's portfolio, in particular as it relates to their fossil-fuel-based steel and aluminium production activities. Whilst acknowledging that the carbon efficiency of the steelmaking process is partly outside of the Group's control, Rio Tinto has articulated a plan that relies on the development of innovative new technologies and partnerships to address the scope 3 emissions resulting from the processing by their clients of the iron ore that the Group produces.

Outcome and next steps: BlackRock is encouraged by the actions the Group has taken to date and its improving transparency in this regard. BlackRock will continue to engage to further assess progress, especially in relation to the Group's strategy of "combining investments in commodities that enable the energy transition with actions to decarbonise its operations and value chains."

BlackRock Fundamental Equity Index Fund

ExxonMobil, May 2022

Summary of resolution: Set greenhouse gas (GHG) emissions reduction targets consistent with Paris Agreement goal

Vote cast: Against

Outcome of the vote: Fail

Management recommendation: Against

Size of mandate's holding at voting date: 1.40%

The reason the Trustee consider this vote to "most significant": The resolution relates to the Trustee's climate change stewardship priority.

Rationale for the voting decision: ExxonMobil Corporation (Exxon) is a multinational oil and gas corporation headquartered in Texas. BlackRock did not support this shareholder proposal in recognition of the steps the company has taken in the past year on setting scope 1 and 2 GHG emissions reduction targets. BlackRock also acknowledges the current complexities surrounding scope 3 emissions reduction targets for the oil and gas industry in particular. The shareholder proposal requested that the company "set and publish medium-and long-term targets to reduce the GHG of the Company's operations and energy products (Scope 1, 2, and 3) consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C." Exxon currently has an ambition to achieve scope 1 and 2 net zero GHG emissions from all operated assets by 2050 and to reach scope 1 and 2 net zero emissions in the Upstream Permian Basin by 2030. Exxon has also made notable improvements on its medium-term target setting since the 2021 AGM. The company has not set scope 3 emissions reduction targets; however, BlackRock recognises that the issue of scope 3 emissions targets is complex, particularly for the oil and gas industry, given the methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies. Therefore, BlackRock considered the proposal to be overly prescriptive and not in the long-term economic interests of its clients.

Outcome and next steps: In BlackRock's engagements over the past twelve months, it has discussed Exxon's efforts toward their net zero goals. BlackRock look forward to continuing to engage with the company on scope 3 emissions and learning about the avenues for consistent frameworks across the oil and gas industry

BlackRock Minimum Volatility Index Fund

McDonalds, May 2022

Summary of resolution: Issue transparency report on global public policy and political influence

Vote cast: Against

Outcome of the vote: Fail

Management recommendation: Against

Size of mandate's holding at voting date: 0.86%

The reason the Trustee consider this vote to "most significant": The resolution relates to the Trustee's corporate transparency stewardship priority.

Rationale for the voting decision: McDonald's Corporation engages in the operation and franchising of restaurants. The proposal asks McDonald's to issue a report annually on "global public policy and political influence, disclosing company expenditures and activities outside of the United States." BlackRock did not support this proposal because, in its assessment, McDonald's disclosure regarding their political spending and lobbying activities provides sufficient information. For example, currently McDonald's oversight system for corporate political activities is outlined in their Political Contribution Policy which helps ensure that their limited political contributions outside the U.S. comply with applicable law and are in the best, long-term interests of the company and shareholders. McDonald's also publishes a list on their website of trade associations of which they are a member.

Outcome and next steps: BlackRock regularly engages with companies to understand how they use corporate political activities to support policy matters material to their long-term strategy and shareholder value. As part of this, BlackRock looks at companies' publicly available disclosures to understand how lobbying and political contributions support their stated policy positions.

BlackRock World Emerging Markets Equity Index Fund

Grupo Financiero Banorte, April 2022

Summary of resolution: Election of board members as proposed by the Nominating Committee

Vote cast: For

Outcome of the vote: Pass

Management recommendation: For

Size of mandate's holding at voting date: 0.27%

The reason the Trustee consider this vote to "most significant": The resolution relates to the Trustee's corporate transparency stewardship priority.

Rationale for the voting decision: Grupo Financiero Banorte, S.A.B. de C.V. ("Banorte") is a Mexican financial institution that offers universal banking services and other financial products. BlackRock supported all 14 directors up for election given that the company provided robust and timely disclosures, articulating how the proposed board is well positioned to oversee the company's strategic aims over the long-term. In line with BlackRock's views of governance best practices and following BlackRock's multi-year engagement with the Company, Banorte published their annual report and financial statements for 2021 30 days prior to the 2022 AGM, describing the company's overall strategy and progress achieved during the reporting period. Available both in Spanish and English, the company's report also includes an explanation of the structure of the board, as well as details on the board members' independence, diversity, tenure, and attendance rates for 2021. Moreover, the company reported they underwent a rigorous assessment, with the assistance of a third-party, to measure the effectiveness of the board and to identify areas of improvement for 2022. Notably, the company also holds annual, individual director elections, compared to other companies in the Mexican market that hold biannual or triannual, grouped (or slate) elections. In BlackRock's view, this governance best practice allows shareholders to annually assess the suitability and performance of each director. This also promotes better understanding of how the overall composition of the board supports management in driving the company's strategy and long-term value creation for all investors, including minority investors such as BlackRock's clients.

Outcome and next steps: BlackRock will continue engaging with Banorte to monitor progress on their annual board refreshment process, especially as the company seeks to enhance diversity in the coming years. While BlackRock supported the election of all 14 directors – including one director that identifies as a woman – BlackRock believes boards should aspire to 30% diversity of membership and encourage companies to have at least two directors on their board who identify as female and at least one who identifies as a member of an underrepresented group.

Baillie Gifford Multi Asset Growth Fund

Greggs plc, May 2022

Summary of resolution: Remuneration report

Vote cast: Against

Outcome of the vote: Pass

Management recommendation: For

Size of mandate's holding at voting date: 0.25%

The reason the Trustee consider this vote to “most significant”: The resolution relates to the Trustee’s corporate transparency stewardship priority.

Rationale for the voting decision: Baillie Gifford voted against the remuneration report due to concerns over executive pay increases and misalignment of pension rates.

Was the vote communicated to the company ahead of the vote: No

Outcome and next steps: Following the vote, Baillie Gifford reached out to the Company to provide reasons for their opposition on the remuneration report and asked for clarification on pay setting for the CEO. The Company acknowledged Baillie Gifford’s feedback on pensions and pay increases for one executive and explained how the new CEO’s salary was set.

Schroder Life Sustainable Future Multi-Asset Fund

3M Company, May 2022

Summary of resolution: Report on Environmental Costs and Impact on Diversified Shareholders

Vote: For

Outcome of the vote: Fail

Management recommendation: Against

Size of mandate’s holding at voting date: 0.14%

The reason the Trustee consider this vote to “most significant”: The resolution relates to the Trustee’s climate change stewardship priority.

Rationale for the voting decision: The shareholder proposal requested the company to set and publish quantitative net zero emissions reductions targets that are aligned with the 1.5 degrees temperature goal. Schroders is keen to see the company develop its short-, medium- and long-term targets relating to emissions reductions including scope 3, and is concerned about the risks associated with delayed action on climate change. Schroders therefore supported the resolution.

Was the vote communicated to the company ahead of the vote: Schroders may tell the company of its intention to vote against the recommendations of the board before voting, in particular if Schroders is a large shareholder or if it has an active engagement on the issue. Schroders always inform companies after voting against any of the board’s recommendations.

Outcome and next steps: Schroders monitors voting outcomes particularly if it is a large shareholder or if it has an active engagement on the issue. If Schroders thinks that the company is not sufficiently responsive to a vote or its other engagement work, Schroders may escalate its concerns by starting, continuing or intensifying an engagement. As part of this activity, Schroders may also vote against other resolutions at future shareholder meetings, such as voting against the election of targeted directors.

Newton Real Return Fund

Microsoft Corporation, December 2022

Resolution: Ratify auditors

Vote cast: Against

Outcome of the vote: Pass

Management recommendation: For

Size of mandate’s holding at voting date: 1.03%

The reason the Trustee consider this vote to “most significant”: The resolution relates to the Trustee’s corporate transparency stewardship priority.

Rationale for the voting decision:

Newton voted against ratifying the auditors of Microsoft given that the same auditors have been in place for 39 years. Newton believes the long tenure raises concerns around the auditor’s independence and effectiveness.

Was the vote communicated to the company ahead of the vote: No

Outcome and next steps: The vote outcome (4.6% against) implies that a few investors share Newton’s concern around auditor independence and effectiveness. Newton expects greater shareholder opposition in the future to such issues as audit quality rises up the agenda for investors. Newton will continue to exercise its voting right to encourage auditor rotation.