STATEMENT OF INVESTMENT PRINCIPLES

This is the Statement of Investment Principles made by the Trustees of the Air France (UK) Pension Scheme in accordance with the Pensions Act 1995. It is subject to periodic review by the Trustees at least every three years and more frequently as appropriate.

In preparing this Statement, the Trustees have consulted with the principal employer to the Scheme (Société Air France) and have taken written advice from the Investment Practice of Hymans Robertson LLP. The Trustees have formally approved the Statement, and a signed version is stored internally for their records.

The Trustees are aware of the Myners Code of Conduct for Investment Decision Making and has reviewed its responsibilities and activities in the context of the Code.

The Trustees are supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the code and to produce a statement of their commitment to the code.

SCHEME OBJECTIVE

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustees' over-riding funding principles for the Scheme are as follows – to agree and set an employer contribution at a level which is sufficient to:

- build up assets to provide for new benefits of active members as they are earned;
- recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on the basis agreed by the Trustees and the Employer; the Trustees also consider the Scheme's funding position on a more stringent buy-out basis should the Scheme wind-up and benefits be secured with an insurance company by the purchase of annuities. These funding positions are monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

INVESTMENT STRATEGY

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. All day-to-day investment decisions have been delegated to authorised investment managers. The strategic benchmark has been translated into benchmarks for the individual managers which are consistent with the Scheme's overall strategy. This is set out in the Appendix to this document. The Scheme benchmark is consistent with the Trustees' view on the appropriate balance between achieving the required long-term return on investments and managing short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners, deferred members and active members), together with the level of disclosed surplus or deficit (relative to the funding basis used on an ongoing basis). The Trustees monitor Scheme performance relative to their agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme. In reviewing the strategy, the Trustees will seek written advice as required.

The Scheme's investments comprise Buy-in policies with Just (formerly Just Retirement) and Aviva, holdings in various pooled passive equity and Liability Driven Investment ('LDI') funds managed by Legal & General Investment Management Limited ("LGIM") and a property mandate managed by CBRE Global Investment Partners (although this is in run-off).

To achieve the objectives the Trustees have agreed the following:-

CHOOSING INVESTMENTS

Excepting the Buy-in policies, the Trustees have decided to invest on a pooled fund basis and such investments are affected through direct agreements with the investment managers. The investment manager of each underlying pooled fund has full discretion over the choice of individual stocks and is expected to maintain a diversified portfolio. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

RELATIONSHIP WITH INVESTMENT MANAGERS

The Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations**") require the Trustees to disclose their policies in relation to their arrangements with their asset managers. The Trustees' "asset managers" are the investment managers.

Where the Trustees invest in pooled funds, they have limited influence over the underlying policies of the pooled funds (although they consider these at outset for appropriateness). However, the Trustees encourage the investment managers to improve their practices, where appropriate as detailed below.

The Trustees have appointed each of the Scheme's investment managers to deliver a specific benchmark, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that all manager appointments have clearly defined benchmarks, objectives and management parameters which require managers to make decisions based on the long-term financial and non-financial performance of companies and which comply and align with the Trustees' investment policies and approach to risk.

The Trustees invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees with the help of their investment consultant to ensure that they are appropriate for the needs of the Scheme and are in compliance and alignment with the Trustees' investment policies.

The Trustees will monitor the investment managers' performance against the investment strategies and objectives of the Scheme. Where an investment manager is consistently misaligned with the Trustees' policies, they will be required to account for this to the Trustees.

Incentivising investment managers

The Trustees incentivise their investment managers to align their investment strategies with the Trustees' policies mentioned in the SIP. When selecting funds, the Trustees will ask their investment consultant to determine the investment manager's remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Scheme's members.

However there may be circumstances where 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.

Assessing medium-to-long term performance of investments

Performance in the medium to long term can be improved when investment managers (i) make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity.

The Trustees recognise the long-term nature of the Scheme’s liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective. The Trustees monitor how the investment managers make decisions based on the long-term sustainability of investee companies, their own ESG policies and their approach to climate related risks and disclosures. This is set out in more detail below.

Where the Trustees have concerns, they will raise them with the investment manager.

Monitoring performance and remuneration

The Trustees monitor the performance of each of their investment managers and mandates on a quarterly basis and carry out formal reviews of each investment manager periodically.

When assessing the performance of an investment manager and mandate, the Trustees consider (amongst other factors):

- The investment manager's financial performance against stated benchmarks and the rest of the market, both in terms of individual performance and their wider role in helping the Scheme meet its long-term objectives.
- How well the investment manager is aligned with the SIP and the Trustees' investment policies.
- The exercise of the investment manager's stewardship responsibilities (including engagement with issuers) as set out in greater detail below.
- The management of risks.
- The quality of service provided by the investment manager, including the quality of reporting and climate-related disclosure to the Trustees.

The Trustees review the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability.

The Trustees will measure a fund’s relative tracking error where appropriate. Managers are expected to provide explanation for any significant deviations away from benchmark or target.

Any investment manager which is considered to be performing poorly may be required to account for their performance, and exceptionally their mandate may be terminated.

The Trustees ensure that remuneration of the investment managers is also consistent with their investment policies and this SIP. Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set as a percentage of assets under management. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all of the Scheme's managers against industry standards.

Duration of arrangements with investment managers

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated, although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

KINDS OF INVESTMENT TO BE HELD

In addition to the Buy-In policies, the Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, and fixed interest and index linked bonds (including LDI funds), investment grade and high yield credit, cash, property and pooled funds. The Scheme may also make use of derivatives for the purpose of efficient portfolio management. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

BALANCE BETWEEN DIFFERENT KINDS OF INVESTMENTS

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market each manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

RISK

The Trustees recognise a number of risks involved in the investment of the assets of the Scheme and monitor these risks on a regular basis. In particular, the Trustees monitor risk in three ways:-

- As indicated above, they have set a strategic asset allocation benchmark for the Scheme.
- They assess risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark.
- They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to the liabilities.

The Trustees provide a practical constraint on Scheme investments deviating greatly from the Trustees' intended approach by adopting a specific asset allocation benchmark and by agreeing benchmark asset allocations and tracking error requirements with their managers which the Trustees monitor.

In choosing the number and style of investment managers for the Scheme, the Trustees consider the risk of underperformance of any single investment manager. The Buy-in policies provide a partial hedge to the Scheme's risk of increasing longevity.

The Scheme has a strategy in place to reduce the allocation to growth assets (and therefore risk) over time, as the funding level improves.

EXPECTED RETURN ON INVESTMENTS

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Actuary in funding the Scheme.

REALISATION OF INVESTMENTS

The majority of assets held within the Scheme may be realised quickly if required. The Scheme does have an investment in property, which may be difficult to realise quickly under certain circumstances, although this portfolio is currently in wind down. The Scheme also has Buy-in policies which are illiquid, although the Trustees have no expectation of needing to sell these.

Portfolio Turnover

The Trustees are required to set out how they monitor the investment managers' "portfolio turnover costs" (i.e. the costs incurred as a result of the buying, selling, lending or borrowing of investments) and how they define and monitor "targeted portfolio turnover" (i.e. the frequency within which the assets of the Scheme are expected to be brought or sold) or "turnover range" (i.e. the minimum and maximum frequency within which the assets of the Scheme are expected to be brought or sold).

The Trustees recognise 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 Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. However, the Trustees do not believe in setting a portfolio turnover target - being the frequency with which the assets are expected to be brought/sold - because the majority of the Scheme's assets are held in passive mandates.

The Trustees will monitor whether their expectations of the level of turnover within each mandate are met by requiring the investment managers to disclose this as part of the assessment and monitoring process.

Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio, details of any transactions over the period and resulting transaction costs as appropriate, so that the Trustees can monitor the costs incurred in buying, selling and other portfolio activities. The Trustees will challenge the Scheme's managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the asset manager over the Scheme reporting year.

RESPONSIBLE INVESTMENT

The Investment Regulations require that Trustees disclose their policies in relation to:

- financially material considerations over the appropriate time horizon, including how these considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of rights (including voting rights) attaching to the investments;
- undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustees would monitor and engage with relevant persons about relevant matters); and

- the extent (if at all) to which non-material matters (the views of members and beneficiaries including - but not limited to - their ethical views and their views in relation to social and environmental impact and present and future quality of life) are taken into account in the selection, retention and realisation of investments.

CONSIDERATION OF FINANCIALLY MATERIAL FACTORS IN INVESTMENT ARRANGEMENTS

Financially material considerations are defined in the Investment Regulations as environmental, social and governance (ESG) considerations, including but not limited to climate change.

The Trustees believe that certain ESG factors can have an impact on financial performance and part of its fiduciary duty is to incorporate this information into its investment decisions to reduce investment risk and enhance portfolio returns over the length of time needed for the funding of future benefits of the Scheme.

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process (including in the selection, retention and realisation of investments). The Trustees further recognise that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustees expect their investment managers to take the Trustees' views set out in this SIP on financially material considerations into account in the selection, retention and realisation of the Scheme's investments.

The strategic benchmark and the specific benchmark in place for each investment manager have been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors over the appropriate timeline of the investments.

Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual investment managers.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustees explicitly consider potential managers’ approaches to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making. Minimum manager standards for responsible investment are expected (e.g. being a signatory to the Principles for Responsible Investment unless there is good justification for the manager adopting a different approach). Although the Trustees have not explicitly highlighted ESG factors to consider, they do expect their managers to assimilate climate change risks, as outlined below in more detail.

The Trustees meet with the Scheme’s investment managers regularly, and the managers are expected to address manager performance and company engagement. Managers will be challenged on their approach where this is not aligned to the Trustees’ policies (including those in respect of financially material considerations).

The Trustees expect the Scheme’s investment consultant to provide input and analysis to assist the Trustees in assessing their managers’ performance. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the manager as part of its engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustees will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reviewed.

Climate-related disclosures

The Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark. However, as the Scheme's assets are managed and advised by third parties, the Trustees expect the Scheme's managers to integrate climate risk considerations and opportunities in their investment strategies and make progress towards understanding and taking action on the climate risks in the Scheme's chosen portfolios. The Trustees expect the Scheme's managers to provide evidence of this through specific examples in manager review meetings and annual reports. If a manager fails to evidence their approach to climate change, then the Trustees will provide a challenge to the manager's existing approach, including its long-term engagement with companies.

CONSIDERATION OF NON-FINANCIALLY MATERIAL FACTORS IN INVESTMENT ARRANGEMENTS

The Trustees have decided not to take non-financial considerations into account in the selection, retention and realisation of investments.

The Trustees will review their policy on non-financial matters on an annual basis.

STEWARDSHIP

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies and is necessary to safeguard sustainable returns in the long-term.

Voting

Excluding the buy-in policy, the Scheme's assets are invested via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes, social, ethical or environmental factors, is delegated to the investment manager of the pooled investment fund. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy but with the objective of preserving and enhancing long term shareholder value.

The Trustees seek to appoint investment managers that have strong stewardship policies and processes and, where relevant, the Trustees have reviewed the voting policies of their investment managers and determined that these policies are appropriate. Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

Engagement

The Investment Regulations require the Trustees to set out how they undertake engagement activities in respect of their investments, including how they monitor and engage with the "relevant person" (i.e. including [but not limited to] an issuer of debt or equity, an investment manager, another stakeholder or another holder of debt or equity) about "relevant matters" (i.e. performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance).

The Trustees delegate primary responsibility for their corporate engagement activities to their investment managers. The Trustees believe that the investment managers are best placed to engage with investee companies on their performance, strategy, capital structure, management of actual or potential conflicts of interest, social and environmental impact and corporate governance.

Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity and, where necessary, will challenge investment managers on the extent to which they are genuinely incorporating long-term factors and engagements in their investment decision-making.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

Monitoring

The Trustees aim to meet with all their investment managers on an annual basis. Managers are challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Trustees/Employers have closed the AVC arrangements to new contributions from 1 July 2017. There are existing AVCs with Aviva and Standard Life. The Trustees will continue to monitor these arrangements.

Signed For and on Behalf of the Trustees of the Air France (UK) Pension Scheme.

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Trustees

APPENDIX

TARGET ASSET ALLOCATION

Asset class	Current Target Allocation (%)	Manager(s)/ Insurer(s)
Equities	14.0	LGIM
Gilts / LDI/ Corporate bonds/ Cash	41.0	LGIM
Buy-in Policies	45.0	Just and Aviva

For note the Trustees continue to have exposure to a property mandate through an allocation that is in run-off (it represented c1% of current assets at 31 March 2024).

There is a general expectation that this allocation will be reallocated to corporate bonds as part of the Trustee approach to generate more stable/predictable growth.