Registration Number: 00281436RK

THE PEARSON PENSION PLAN

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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TRUSTEE AND ADVISERS TO THE PLAN

Trustee	Pearson Pension Trustee Limited
Principal Employer (Company)	Pearson Services Limited
Participating Employers	Pearson College Limited (until 31 May 2023) 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 Embanet UK Limited (joined 30 May 2023 until 30 June 2023)
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 (Infrastructure and Direct/Indirect Property)
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
Meridiam Infrastructure Managers S.a.r.l	Infrastructure
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	Trade finance
Pantheon Ventures Limited	Private equity
Aegon Asset Management	Bonds
Chelsea Building Society	Bonds
LaSalle Investment Management Limited	Property
CBRE Investment Management Indirect Limited (until 31 May 2023)	Property

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, fixed interest, index linked gilts and cash
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

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.

With effect from 1 April 2023, the Trustee has taken full ownership of Pearson Pension Trustee Services Limited, which is the legal entity which employs the pensions team that handles the day-to-day administration of the Plan on behalf of the Trustee. This decision was taken as both Pearson and the Trustee felt that this was in the best interest of members and ensures that the Plan continues to be run smoothly both now and in the future.

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.

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.

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 board and Pearson Pension Property Fund Limited (The Property Trustee)

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 board 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 board 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)

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
William Nash
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. From April 2023, the committee is also responsible for reviewing the remuneration policies of Pearson Pension Trustee Services Ltd, administrators of the Plan and a wholly-owned subsidiary of the Trustee. 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 (Chair)
Nigel Rendell (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)

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 (resigned 19 March 2024)
Michael Kearton (appointed 20 March 2024)
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 (the "Assurance 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 half yearly. 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. The Trustee is currently reviewing these and creating an action plan in line with the general code of practice laid before Parliament on 10 January 2024 and which came into force on 28 March 2024.

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 25 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 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 2023	3,087	10,401	13,488	48	4,275	8,679	13,002	26,490
Opening / closing adjustments	(8)	-	(8)	-	-	1	1	(7)
New joiners	627	-	627	-	-	-	-	627
Retirements	(3)	(70)	(73)	(4)	(270)	347	73	-
Leavers with deferred benefits	(963)	963	-	(7)	7	-	-	-
Leavers taking transfers out*	-	(234)	(234)	-	(12)	-	(12)	(246)
Deaths	(3)	(10)	(13)	-	(176)	(281)	(457)	(470)
New dependant pensioners	-	-	-	-	-	128	128	128
Ceased dependants	-	-	-	-	-	(192)	(192)	(192)
Other leavers**	(3)	(35)	(38)	-	(45)	-	(45)	(83)
Members as at 31 December 2023	2,734	11,015	13,749	37	3,779	8,682	12,498	26,247

* DC transfer outs include 4 members who had two periods of services and amalgamated their pot.
**Other leavers category includes members taking trivial commutations.

The pensioners category includes all pensions in payment to spouses and dependant children of deceased members and 317 (2022: 240) 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 5,965 (2022: 6,206) pensioners that are insured under annuity policies. The Plan provides death in service benefits for 499 (2022: 645) UK employees (Life Assurance Members) who do not participate in the pension arrangements under the Plan.

4 FURTHER INFORMATION

Pension Plan funding

The Report on Actuarial Liabilities (forming part of the Trustee Report) on page 81 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. Contributions from 1 January 2023 to 31 December 2023 were payable in accordance with the Schedule of Contributions dated 16 December 2022. A new Schedule of Contributions was agreed on 20 December 2023 for contributions due from 1 January 2024 to 30 June 2024 and a further Schedule of Contributions was agreed on 18 July 2024 for contributions due from 1 July 2024.

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 2023 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 77 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 2023 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 2024, the full amount of the future service employer contributions due to the Plan for a period of 6 months to 30 June 2024 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. Further, it has been agreed that the payment date of the full amount of the future service employer contributions due to the Plan for the period of 6 months from 1 July 2024 to 31 December 2024 will be deferred until 19 days from the end of December 2024. It is expected that the Plan will maintain its funding target on a technical provision basis over this period.

Sections 75 for leaving employers

During the year, three employers left the Plan: Pearson Pension Trustee Services Ltd, Pearson College Ltd and Embanet UK Ltd. At the time of cessation, the section 75 Debt was calculated by the Plan Actuary and, due to the assets being higher than the liabilities, the debt was nil for Pearson Pension Trustee Services Ltd and Pearson College Ltd. A flexible apportionment agreement was agreed for Embanet UK Ltd. Embanet UK Ltd became a participating employer during the year, following the transfer of relevant Pearson Education Limited and Pearson Management Services Limited employees to Embanet UK limited prior to the sale of the entity in June 2023.

Employer covenant

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 1 March 2024 it noted that 2023 has been another year of outperformance and it has a positive outlook with a stable platform for continued growth. The company plans to continue with its range of products and services and enhance them with AI capabilities.

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.

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.

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 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 (1 January 2022: 4.9%). On 1 October 2023, the Trustee awarded a 10.1% increase (based on the increase in basic state pension in April 2022 to April 2023) to the temporary supplementary pension element of Thames Section pensions.

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.

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

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.

During November 2023, an annual review of pensions in payment was carried out. On 1 January 2024, the Trustee awarded pension increases in line with the Rules based on the movement in headline RPI in the year to September 2022 of 8.9% and CPI of 6.7% (pro-rated as described above). Nine discretionary increases were awarded as at 1 January 2024 for the nine TQ Section pensioners who left service before 6 April 1989 at the rate of 8.9% on their entire pension.

During February 2024, additional discretionary pensions were awarded for all pensioners with pensions of less than £15,000 p.a., effective from the 1 April 2024. The discretionary increase is structured to raise the capped elements of the members' guaranteed pensions (excluding GMP unless Plan Rules say otherwise) to 5%.

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 645
Darlington
DL1 9HP

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
Telephone: 0800 781 1378 (+44 203 7888562 if calling from outside the UK)

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

Email: pensionerpayroll@pearson.com

Telephone: 0800 781 1378 (+44 203 7888562 if calling from outside the UK)

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/contact_us. Alternatively,enquiries can be sent to:

The Pearson Pension Plan
P.O. Box 645
Darlington
DL1 9HP

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/contact_us

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.

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 SIPs at 31 May 2022 and 28 September 2023 were applicable during the period covered by these financial statements. The most recent SIP dated 28 September 2023, 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 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.

Socially responsible investments (continued)

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 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

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 66 to 72 and in the Statement of Investment Principles on pages 82 to 92.

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 primary objectives for the Defined Contribution Sections 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.

Defined Contribution assets

The value of assets held with Aviva for members in these sections, including AVCs within these funds at 31 December 2023 was as follows:

Fund	MP03 & AE Market Value	AVC Market Value	Total Market Value	
	£'000	£'000	£'000	%
Blended global equity fund	448,072	7,246	455,318	66.1
Blended multi-asset fund	89,062	2,007	91,069	13.2
Short duration credit fund	36,499	862	37,361	5.4
Blended index linked gilt fund	32,773	875	33,648	4.9
BlackRock world (ex-UK) equity index fund	25,148	2,336	27,484	4.0
Annuity targeting fund	9,939	139	10,078	1.5
BlackRock UK equity index fund	10,425	675	11,100	1.6
BlackRock institutional sterling liquidity fund	7,404	1,605	9,009	1.3
Jupiter ecology fund	5,012	277	5,289	0.8
CT Pensions property fund	2,359	88	2,447	0.3
BlackRock over 15 year corporate bond index tracker	2,616	197	2,813	0.4
BlackRock over 15 year gilt index fund	1,424	55	1,479	0.2
MFS Meridian global equity fund	1,141	16	1,157	0.2
CT responsible global equity fund	486	5	491	0.1
	672,360	16,383	688,743	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.

Defined Contribution assets (continued)

The aggregate amounts of AVC investments are as follows:

	2023	2022
	£'000	£'000
Aviva	16,383	14,340
Clerical Medical Investment Management	191	206
Prudential	112	143
Other insurance companies	173	173
	16,859	14,862

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.

From 25 June 2024, the combination of funds applicable to the phased switching of the Drawdown lifecycle option have been amended to include the Blended global equity fund, Blended multi-asset fund, Annuity targeting fund, Short duration credit fund and Sterling liquidity fund. It remains the case that fund switching under this option is a gradual process that commences 15 years from a member's retirement.

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 2023.

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.

Further details of the default lifecycle arrangements can be found within the Chairman's Defined Contribution Governance Statement, on page 25.

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 48. 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 32 to 38.

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 2023			5-years (p.a.) to 31 December 2023		
	Fund Performance	Benchmark Performance	Difference	Fund Performance	Benchmark Performance	Difference
	%	%	%	%	%	%
Passive funds						
BlackRock over 15 year corporate bond Index fund	10.4	10.6	(0.2)	(1.8)	(1.6)	(0.2)
BlackRock world ex UK equity index fund	18.4	18.6	(0.2)	13.2	13.1	0.1
BlackRock UK equity index fund	6.5	6.7	(0.2)	6.0	6.2	(0.2)
BlackRock over 15 Year gilt Index fund	1.5	1.7	(0.2)	(6.7)	(6.3)	(0.4)
Blended global equity fund*	9.8	9.2	0.6	10.3	9.7	0.6
Blended index linked gilt fund	2.7	2.7	0.0	(1.1)	(0.9)	(0.2)
Annuity targeting fund	2.7	2.6	0.1	(1.4)	(1.3)	(0.1)
Active funds						
Blended multi-asset fund**/****	3.5	8.5	(5.0)	3.4	5.7	(2.3)
CT Pensions property fund	0.2	(1.4)	1.6	1.6	1.3	0.3
Jupiter ecology fund	11.9	15.3	(3.4)	12.5	22.1	(9.6)
MFS Meridian global equity fund**	8.4	19.8	(11.4)	10.3	15.8	(5.5)
BlackRock Sterling liquidity fund****	4.5	4.7	(0.2)	1.2	1.3	(0.1)
CT responsible global equity fund	8.0	17.4	(9.4)	11.9	13.4	(1.5)
Short duration credit fund**/***/****	8.2	6.3	1.9	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 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 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 performance and target of the Blended Multi-Asset Fund reflect the changes to the underlying asset allocation implemented on 30 June 2020.

Defined Contribution Sections performance (continued)

The Blended multi-asset fund and MFS meridian global equity fund have underperformed compared to their performance targets. The Blended multi-asset fund comprises the Baillie Gifford Multi-asset growth, Newton real return, and Schroder life sustainable future multi-asset funds. Baillie Gifford multi-asset growth fund has suffered weak performance in 2022 and throughout 2023. The funds negative performance during 2023 was attributed to its high-yield credit allocation which was particularly affected by its exposure to Chinese property companies and the direction of government bond yields. The Plan's investment advisers, LCP, are considering the blend of funds as part of the review of the DC investment funds. The MFS meridian global equity funds underperformance was mainly due to its underweight position and stock selection in information technology and its comparatively poor stock selection in health care and consumer discretionary.

The CT responsible global equity fund underperformed compared to its benchmark due to a combination of factors: its 1.5% holding at the end of March in the collapsed Silicon Valley Bank; its overweight/underweight position in emerging markets and North America, respectively; and its zero weight in the energy sector.

Defined Benefit Sections

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

Investment objective and strategy

The Trustee's primary objective for the Defined Benefit Sections is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, the Trustee has the following objectives:

- 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 over time broadly aim to protect against cost-of-living increases.

- As a precondition of the above, the Trustee will endeavour 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.

Investment objective and strategy (continued)

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.

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, a low-risk investment strategy, 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 2023, which is in line with the strategy as defined in the SIP, is shown in the investment risk table on page 67:

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.

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.

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 2023, which LCP have calculated based on information provided by BNY Mellon, were:

	One year	Three years
	%	% p.a.
The Plan actual	(1.6)	(10.4)
The Plan benchmark	3.0	(7.2)

The Plan's return seeking assets achieved a return of -2.3% over the last year, compared with a benchmark return of 8.9%. The return seeking assets' negative performance is mainly attributable to infrastructure funds and pooled property funds and was the main contributor to the overall Plan performance being less than the benchmark. The liability matching assets return over the year was -1.4% compared to a benchmark return of 2.4%. The majority of the liability matching assets are index linked and are designed to match liability cashflow movements. The liabilities of the Plan have also reduced in line with the market conditions; therefore, the performance of the assets has not affected the Plans funding levels.

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.

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
Date: 19 July 2024

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 2023 to 31 December 2023.

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.

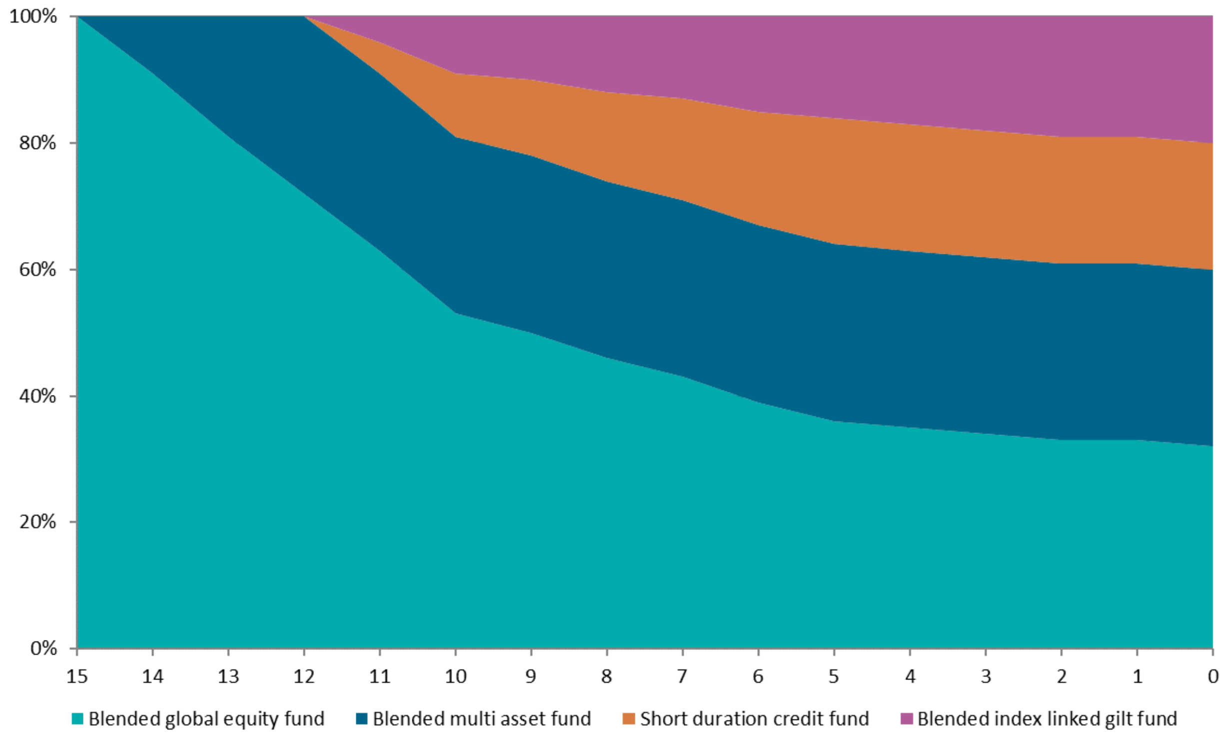
Some members of the DC Sections of the Plan make their own investment choices from the range of investment options made available by the Trustee, but those who do not make an explicit choice regarding the investment of their funds are placed automatically into a default arrangement. After taking advice, 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 Trustee is required to calculate the percentage of the Plan assets within the default arrangements allocated to key asset classes. In line with DWP's guidance, this asset allocation is shown for different ages as at the Plan year end.

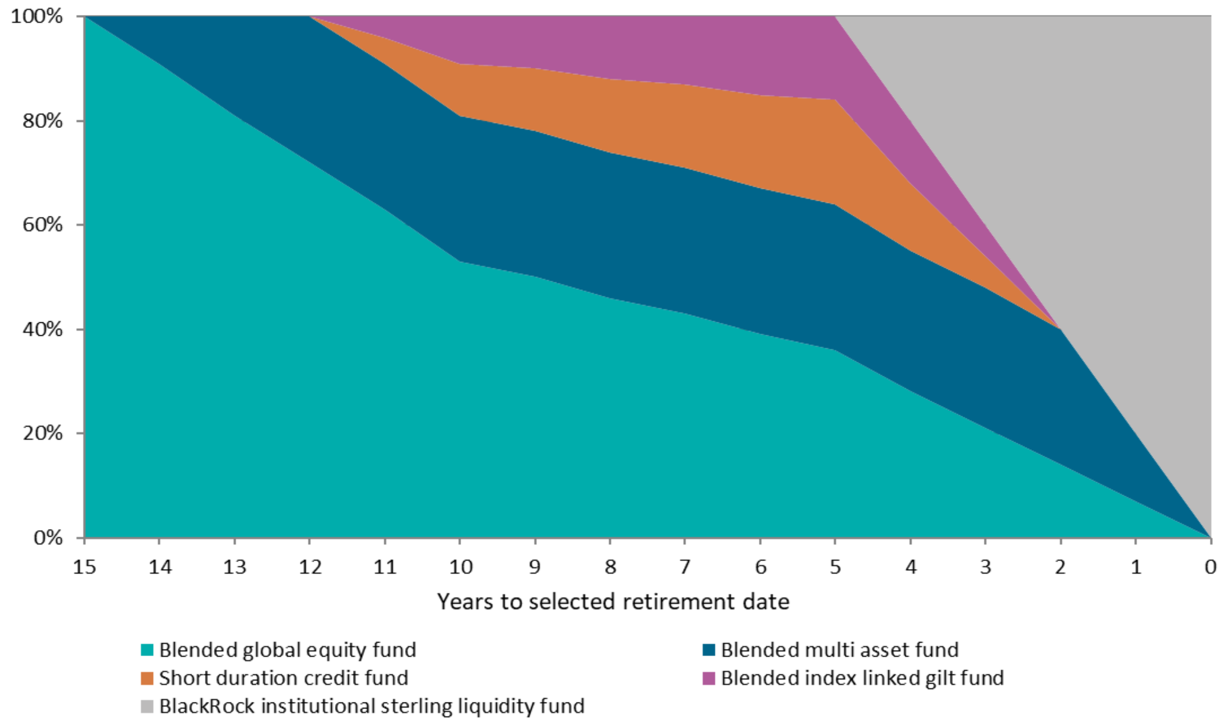
The asset allocations in the years leading up to retirement for the Drawdown lifecycle are shown below:



Drawdown lifecycle				
Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	4.2	4.3
Corporate bonds (UK and overseas)	0.0	0.0	19.1	22.7
UK government bonds	0.0	0.0	17.0	24.0
Overseas government bonds	0.0	0.0	1.5	1.5
Listed equities	100.0	100.0	53.4	42.4
Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.9	0.9
Private debt	0.0	0.0	0.0	0.0
Other	0.0	0.0	4.0	4.3

Totals may not sum due to rounding.

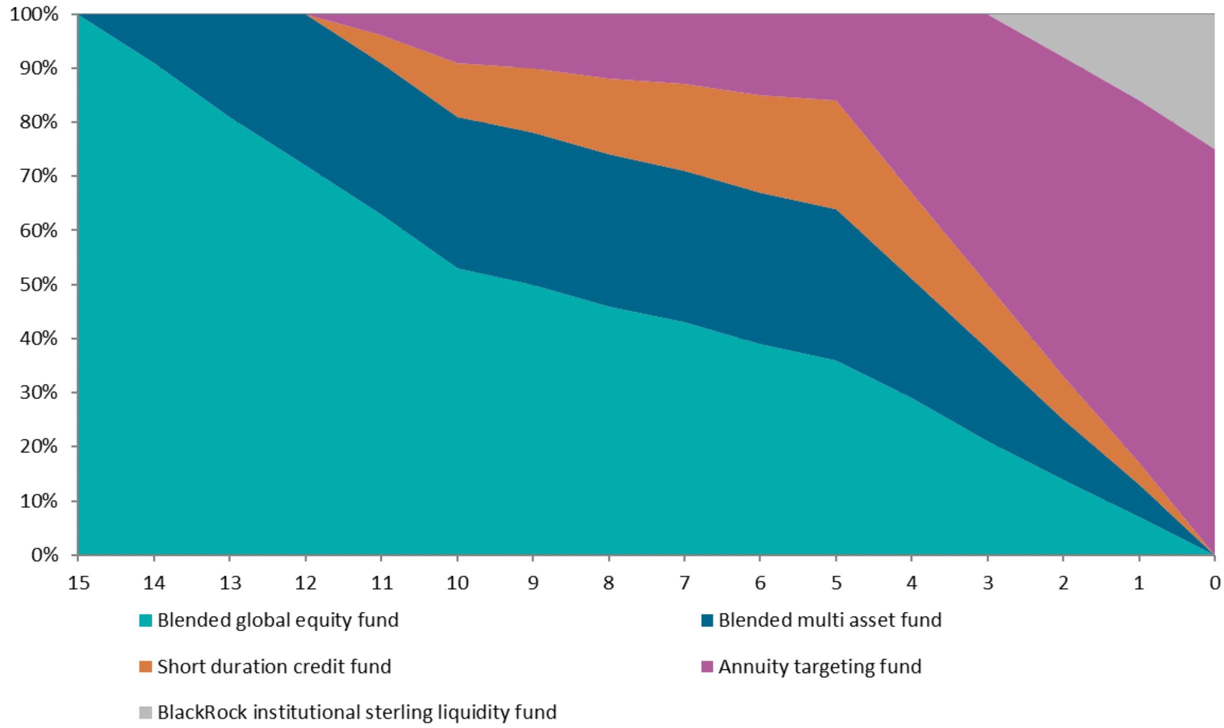
The Cash lifecycle is the default lifecycle option for existing members with AVC benefits within the Plan who do not have assets invested in the Drawdown lifecycle, or are DB members with AVC benefits who do not have assets invested in the MP03 or AE sections of the Plan. The strategy is also open for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



Cash lifecycle				
Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	4.2	99.3
Corporate bonds (UK and overseas)	0.0	0.0	19.1	0.0
UK government bonds	0.0	0.0	17.0	0.7
Overseas government bonds	0.0	0.0	1.5	0.0
Listed equities	100.0	100.0	53.4	0.0
Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.9	0.0
Private debt	0.0	0.0	0.0	0.0
Other	0.0	0.0	4.0	0.0

Totals may not sum due to rounding.

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:



Annuity lifecycle				
Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 55 y/o %	Allocation at retirement %
Cash	0.0	0.0	4.2	24.8
Corporate bonds (UK and overseas)	0.0	0.0	19.1	0.0
UK government bonds	0.0	0.0	17.0	75.2
Overseas government bonds	0.0	0.0	1.5	0.0
Listed equities	100.0	100.0	53.4	0.0
Private equity	0.0	0.0	0.0	0.0
Infrastructure (direct)	0.0	0.0	0.0	0.0
Property (direct)	0.0	0.0	0.9	0.0
Private debt	0.0	0.0	0.0	0.0
Other	0.0	0.0	4.0	0.0

Totals may not sum due to rounding.

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 are in a document called the 'Statement of Investment Principles' ("SIP"), which can be found on pages 82 to 92.

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

"The objective of the Drawdown Lifecycle is to generate returns above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to investments that more closely match the intentions of members."

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 and objective 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. The asset allocation throughout the default Lifecycles and the phasing of the gradual switching of investments aim to take into account members' greater capacity for risk early on and reduced capacity for risk closer to retirement. Each option is designed to reflect the Trustee's belief that most members in that strategy will take their benefits in the specified form."

In the initial growth phase, the above lifecycle options (including the legacy default and the Annuity Lifecycle) are invested to target a return significantly above inflation. In the 15 years before retirement, they then 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 18, 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. The BlackRock sterling liquidity fund is invested in 99% Cash and 1% UK Government bonds. This allocation remains consistent regardless of members' age or time to retirement.

On a quarterly basis, the performance of the funds after charges (which can be found on pages 17 and 18) comprising the default arrangements are reviewed by the Investment Committee. Throughout the year ended 31 December 2023, investment returns for passive funds have generally tracked their respective benchmarks 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 assets held within 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. All members in the three default strategies experienced positive returns during the year to 31 December 2023.

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 formally reviewed during the period covered by this Statement. The review took place over the course of several meetings commencing on 22 March 2023. The performance and strategy of the default arrangements were reviewed to check whether investment returns (after deduction of charges and costs) have been consistent with the aims and objectives of the default arrangements as stated in the SIP, and to check that they continue to be suitable and appropriate given the Plan's risk profiles and membership. Following this review, the Trustee agreed a number of enhancements to the Plan's investment options.

Within the Drawdown lifecycle, the Trustee agreed to replace the Blended index linked gilt fund with the Annuity targeting fund to provide a better match for members who take the In-Plan Pension at retirement. Within the Annuity targeting fund itself, the Trustee decided to increase the allocation to longer-dated index-linked gilts, to ensure the fund continues to provide a suitable hedge for members. To reduce volatility, the Trustee also agreed to add a cash allocation to the Drawdown lifecycle starting from three years to retirement, to hold a 10% allocation to cash at retirement.

Within the self-select range, the Trustee agreed to add a Shariah-compliant equity fund to cater to members who wish to invest in line with Islamic beliefs.

These changes are expected to be implemented in 2024.

The Trustee has also reviewed the membership demographics of the Plan and has considered options to enhance the default strategy by improving environmental, social, and governance ("ESG") integration by incorporating a low carbon equity allocation to the Blended Global Equity fund. The Trustee has agreed in principle with this approach, but discussions on the implementation of the low carbon equity allocation are still underway.

As part of the triennial strategy review, the Trustee also reviewed the Blended multi-asset fund. The Trustee decided to continue to monitor the performance of the underlying managers, particularly Baillie Gifford, to ensure they are performing in line with their long-term targets.

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.

The next full triennial review of the investment arrangements is due to take place in March 2026, or immediately following any significant change in investment policy or the Plan's member profile.

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 2023 was in line with or above the agreed target of 95% (97.5%, 98.3%, 97.9% and 95.1% from Q1 to Q4 2023, 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 by 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;
- 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).

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 (SRD)	TER	Transaction costs
15 or more	0.26%	0.01%
10	0.37%	0.12%
5	0.35%	0.14%
At retirement	0.35%	0.14%

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 SRD	TER	Transaction costs
15 or more	0.26%	0.01%
10	0.37%	0.12%
5	0.35%	0.14%
At retirement	0.14%	0.02%

The Annuity lifecycle arrangement is a legacy default 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 SRD	TER	Transaction costs
15 or more	0.26%	0.01%
10	0.37%	0.12%
5	0.35%	0.13%
At retirement	0.17%	0.03%s

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 0.02%.

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.

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.

TERs for each fund for 2023 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, the Drawdown lifecycle, are shown in bold.

Fund Name	TER 2023	Total transaction costs 2023
Blended global equity fund	0.26%	0.01%
BlackRock UK equity index fund	0.19%	0.04%
BlackRock world ex UK equity index fund	0.19%	0.02%
Jupiter ecology fund	0.92%	0.01%
Columbia Threadneedle Pensions property fund	0.84%	0.05%
Blended index linked gilt fund	0.18%	0.04%
Annuity targeting fund	0.18%	0.03%
BlackRock over 15 year corporate bond index fund	0.19%	0.14%
BlackRock over 15 year gilt index fund	0.19%	0.02%
BlackRock institutional sterling liquidity fund	0.14%	0.02%
Blended multi-asset fund	0.70%	0.35%
MFS Meridian global equity fund	0.74%	0.05%
Short duration credit fund	0.18%	0.14%
Columbia Threadneedle responsible equity fund	0.69%	0.16%

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 2023	Total transaction costs 2023
Prudential – cash accumulation with-profits[1]	1.31%	0.17%
Prudential – deposit fund[1]	0.00%	0.00%
Clerical Medical – with-profits fund	0.50%	0.33%
Clerical Medical – balanced fund	0.50%	0.31%
Clerical Medical – cash fund	0.50%	0.02%
Clerical Medical – far eastern fund	0.50%	0.33%
Clerical Medical – UK equity tracker fund	0.50%	0.06%
Clerical Medical – ethical fund	0.50%	0.05%
Royal London – crest secure fund[2]	1.45%	0.01%
Phoenix Life – managed pension fund[3]	1.03%	0.24%
Phoenix Life – with-profits fund[4]	1.18%	0.04%

[1] Transaction cost shown for the Prudential funds cover the year to 30 June 2023. The TER for the Prudential cash accumulation with-profits fund is taken into account in the declared bonus rate.
[2] Transaction cost shown for the Royal London crest secure fund covers the year to 30 December 2022.
[3] TER and transaction cost for the Phoenix Life managed pension fund are for the year ending 31 December 2021. Phoenix has not provided 2023 and 2022 data at the time of writing.

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 Phoenix Life funds as this information was not received during the Plan year. 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 "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 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), the BlackRock Sterling Liquidity Fund (which is considered a default option) 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 Blended multi-asset ; and
- the fund with lowest annual member borne costs – this is the BlackRock sterling liquidity fund.

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	£3,800	£3,800	£3,800	£3,800	£3,800	£3,800
3	£8,300	£8,200	£8,300	£8,200	£8,300	£8,200
5	£12,900	£12,800	£12,900	£12,800	£12,900	£12,800
10	£25,700	£25,300	£25,700	£25,300	£25,700	£25,300
15	£40,000	£39,100	£40,000	£39,100	£40,000	£39,100
20	£56,300	£54,600	£56,300	£54,600	£56,300	£54,600
25	£74,700	£71,900	£74,700	£71,900	£74,700	£71,900
30	£94,700	£89,600	£94,700	£89,700	£94,800	£89,700
35	£113,100	£105,100	£113,100	£105,200	£113,500	£105,600
40	£131,000	£119,700	£122,500	£112,800	£124,700	£115,000

Projected pension pot in today's money

Years invested	Default option (BlackRock sterling liquidity fund)		Blended multi-asset fund	
	Before costs £	After costs £	Before costs £	After costs £
1	£3,700	£3,700	£3,800	£3,800
3	£7,700	£7,700	£8,300	£8,100
5	£11,500	£11,500	£12,900	£12,600
10	£20,700	£20,500	£25,700	£24,200
15	£29,100	£28,800	£40,000	£36,800
20	£37,000	£36,400	£56,300	£50,300
25	£44,300	£43,400	£74,700	£64,800
30	£51,000	£49,900	£95,600	£80,400
35	£57,300	£55,800	£119,100	£97,200
40	£63,100	£61,300	£145,800	£115,200

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 £1,700. 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 £23,000. This is the approximate median salary for active members aged 25 or younger.
- Total contributions (employee plus employer) are assumed to be 9% of salary per year. This is the median total contributions for active members aged 25 or younger.

The projected annual returns used are as follows:

- Drawdown lifecycle: 2.5% above inflation for the initial years, gradually reducing to a return of 1.2% 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 0.8% below inflation at the ending point of the lifecycle.
- BlackRock Sterling Liquidity Fund (which is considered a default, and has the lowest member-borne costs): 1.5% below inflation.
- Blended multi-asset fund (which has the highest member-borne costs): 2.5% 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. The Trustee has taken account of the relevant statutory guidance in preparing this section.

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.

Drawdown lifecycle net returns over period to year end 31 December 2023

Age of the member at the start of the period	1 year (%)	5 year (%)
25	9.8	10.3
45	9.8	9.3
55	6.7	5.6
60	6.4	5.3

Cash lifecycle net returns over period to year end 31 December 2023

Age of the member at the start of the period	1 year (%)	5 year (% pa)
25	9.8	10.3
45	9.8	9.3
55	6.7	5.9
60	4.7	1.8

Annuity lifecycle net returns over period to year end 31 December 2023

Age of the member at the start of the period	1 year (%)	5 year (% pa)
25	9.8	10.3
45	9.8	9.3
55	6.7	4.1
60	3.8	0.3

Note: The underlying investments of the three lifecycles were changed in October 2021 following a triennial strategy review: the BlackRock over 15 year corporate bond index fund was replaced with the Short duration credit fund within the three lifecycles and the Blended index linked gilt fund was replaced with the Annuity targeting fund within the Annuity lifecycle. The 5-year calculations above assume that members were invested in the previous funds, before the changes were made, for the whole of 2021.

Self-select fund net returns over period to year end 31 December 2023

Fund name	1 year (%)	5 year (% pa)
Blended global equity fund	9.8	10.3
BlackRock UK equity index fund	6.5	6.0
BlackRock world ex UK equity index fund	18.4	13.2
Jupiter ecology fund	11.9	12.5
Columbia Threadneedle pensions property fund	0.2	1.6
Blended index linked gilt fund	2.7	(1.1)
BlackRock over 15 year corporate bond index fund	10.4	(1.8)
BlackRock over 15 year gilt index fund	1.5	(6.7)
BlackRock institutional sterling liquidity fund[1]	4.5	1.2
Blended multi-asset fund	3.5	3.4
MFS Meridian global equity fund	8.4	10.3
Short duration credit fund[2]	8.2	-
Columbia Threadneedle responsible equity fund	0.2	11.9

[1] The BlackRock sterling liquidity fund is also considered to be a default investment option.

[2] The Short duration credit fund was launched on 12 September 2019, so five-year performance is not yet available.

Legacy AVC fund net returns over period to year end 31 December 2023

Fund name	1 year (%)	5 year (% pa)
Prudential – cash accumulation with-profits	4.5	4.9
Prudential – deposit fund	4.6	1.4
Clerical Medical – with-profits fund	-	-
Clerical Medical – balanced fund	7.4	-
Clerical Medical – cash fund	3.8	-
Clerical Medical – far eastern fund	4.8	-
Clerical Medical – UK equity tracker fund	7.7	-
Clerical Medical – ethical fund	14.7	-
Royal London – crest secure fund	-	-
Phoenix Life – managed pension fund	-	-
Phoenix Life – with-profits fund	-	-

At the time of writing, net returns for the Clerical Medical with-profits fund, Royal London and Phoenix Life funds had not been received. Most providers were also not able to provide five-year returns. 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 20 June 2024. 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.

We believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

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. Higher interest rates during the year have made it more challenging for the Plan's diversified growth funds (underlying the Blended multi-asset fund) to achieve their cash-based targets, while the strong performance of global equities have made it difficult for active equity funds to outperform. 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.

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 the speed of service and reduce member complaints further.

- 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. The Trustee and the pensions team should continue to review the Plan's governance to assess compliance with the new Pension Regulator's General Code of Practice.

- 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 – Very good – The strategies broadly achieved their objectives over the year. The triennial review of the investment arrangements was completed during the Plan year and changes agreed following this review will be implemented in 2024 to ensure strategies remain suitable for members.

- Investment range – Very good – The self-select fund range provides access to most asset classes, some specialist options and alternative lifestyle strategies. Changes from the strategy review such as introducing a Shariah fund will further improve the range available.
- Post-retirement services – Good – Support and guidance offered to members are reasonable. A new information hub is due be launched on the website in 2024.
- Plan design – Good – The Plan's design and contribution structure are reasonable and encourage members to take advantage of the extra matching contributions.

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.

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 16 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 their 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 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 19 July 2024 and signed on its behalf by:

J A B Joll

Chairman

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 2023 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 2023, 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.

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.

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.

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

Date: 19 July 2024

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 2023 which is set out on page 78. In our opinion, contributions for the Plan year ended 31 December 2023 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 Schedule of Contributions certified by the Plan Actuary on 16 December 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 Schedule 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 Schedule 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

Date: 19 July 2024

THE PEARSON PENSION PLAN

FUND ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Defined Benefit Sections £'000	Defined Contribution Sections £'000	2023 Total £'000	Defined Benefit Sections £'000	Defined Contribution Sections £'000	2022 Total £'000
Contributions and benefits							
Employer contributions	(3)	149	8,833	8,982	1,905	14,507	16,412
Member contributions		116	1,198	1,314	137	7,194	7,331
Total contributions		265	10,031	10,296	2,042	21,701	23,743
Transfers in	(4)	-	131	131	-	161	161
Other income	(5)	511	542	1,053	150	1,058	1,208
		776	10,704	11,480	2,192	22,920	25,112
Benefits	(6)	(109,424)	(3,727)	(113,151)	(102,846)	(2,995)	(105,841)
Payments to and on account of leavers	(7)	(3,725)	(12,989)	(16,714)	(13,421)	(10,377)	(23,798)
Administrative expenses	(8)	(8,152)	-	(8,152)	(7,485)	-	(7,485)
Other payments	(9)	(665)	-	(665)	(297)	-	(297)
		(121,966)	(16,716)	(138,682)	(124,049)	(13,372)	(137,421)
Net movements from dealings with members		(121,190)	(6,012)	(127,202)	(121,857)	9,548	(112,309)
Returns on investments							
Investment income	(10)	110,756	-	110,756	108,571	-	108,571
Change in market value	(11a)	(105,846)	52,325	(53,521)	(1,055,130)	(32,928)	(1,088,058)
Investment management expenses	(12)	(1,524)	-	(1,524)	(1,362)	-	(1,362)
Net return on investments		3,386	52,325	55,711	(947,921)	(32,928)	(980,849)
Net decrease in the Fund during the year		(117,804)	46,313	(71,491)	(1,069,778)	(23,380)	(1,093,158)
Transfers between sections	(15)	(8,907)	8,907	-	3,464	(3,464)	-
Net assets of the Plan							
At 1 January		2,618,091	637,020	3,255,111	3,684,405	663,864	4,348,269
At 31 December		2,491,380	692,240	3,183,620	2,618,091	637,020	3,255,111

THE PEARSON PENSION PLAN
STATEMENT OF NET ASSETS
AS AT 31 DECEMBER 2023

	Notes	2023 Defined Benefit Sections £'000	2023 Defined Contribution Sections £'000	2023 Total £'000	2022 Defined Benefit Sections £'000	2022 Defined Contribution Sections £'000	2022 Total £'000
Investment assets	(11)						
Bonds		141,467	-	141,467	129,372	-	129,372
Property		140,400	-	140,400	169,350	-	169,350
Pooled investment vehicles		1,055,711	672,360	1,728,071	1,079,790	619,078	1,698,868
Insurance policies		1,120,900	-	1,120,900	1,182,175	-	1,182,175
Other investment balances		2,610	-	2,610	2,362	-	2,362
Cash		15,798	-	15,798	28,280	-	28,280
AVC investments		-	16,859	16,859	-	14,862	14,862
		2,476,886	689,219	3,166,105	2,591,329	633,940	3,225,269
Investment liabilities	(11)						
Other investment balances		(2,302)	-	(2,302)	(3,993)	-	(3,993)
Total net investments	(11)	2,474,584	689,219	3,163,803	2,587,336	633,940	3,221,276
Current assets	(14)	28,384	3,432	31,816	40,926	3,745	44,671
Current liabilities	(14)	(11,588)	(411)	(11,999)	(10,171)	(665)	(10,836)
Net assets of the Plan at 31 December		2,491,380	692,240	3,183,620	2,618,091	637,020	3,255,111

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 81 and Actuary's certification of the Schedule of Contributions on page 79 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 19 July 2024 and signed on its behalf by:

Chairman

Director

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.

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.

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.

3 CONTRIBUTIONS RECEIVABLE

2023

		DB Sections £'000	DC Sections £'000	Total £'000
Employer contributions				
Normal	(a) (i)	-	6,682	6,682
Augmentations	(a) (ii)	149	3	152
Additional voluntary	(a) (iii)	-	2,148	2,148
Member contributions				
Normal	(b) (i)	116	607	723
Additional voluntary	(b) (ii)	-	591	591
		265	10,031	10,296

2022

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

(a) Employer contributions

(i) Amounts are receivable from participating employers in accordance with the Schedule of Contributions dated 20 January 2022, from 1 January 2022 to 31 October 2022; the Schedule of Contributions dated 10 November 2022, from 1 November 2022 to 31 December 2022; and the Schedule of Contributions dated 16 December 2022, from 1 January 2023 to 31 December 2023.

With effect from 1 January 2023, the full amount of the employer contributions due to the Plan in respect of members of the DB and DC Sections have been offset against the surplus assets in the DB Sections as agreed between the Employer and the Trustee.

Salary exchange came into effect from 1 November 2022. Employer normal contributions includes £6.65m (2022: £1.11m) in respect of salary exchange.

(ii) Amounts received from participating employers to enhance members' benefits on leaving service.

3 CONTRIBUTIONS RECEIVABLE (continued)

(iii) 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)).

Employer AVCs includes £2.15m (2022: £153k) in respect of salary exchange.

(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

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Individual transfers in from other schemes	-	131	131

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

5 OTHER INCOME

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Claims on term insurance policies	-	540	540
Bank interest	493	-	493
Other income	18	2	20
	511	542	1,053

	2022		
	DB Sections £'000	DC Sections £'000	Total £'000
Claims on term insurance policies	88	1,052	1,140
Bank interest	58	-	58
Other income	4	6	10
	150	1,058	1,208

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6 BENEFITS PAYABLE

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Pensions	97,118	-	97,118
Commutations	11,132	2,672	13,804
Lump sum death benefits	829	782	1,611
Taxation where lifetime or annual allowance exceeded	345	273	618
	109,424	3,727	113,151

	2022		
	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
	102,846	2,995	105,841

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.

7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2023

	DB Sections £'000	DC Sections £'000	Total £'000
Individual transfers to other schemes	3,725	12,989	16,714

2022

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

8 ADMINISTRATION EXPENSES

2023

	DB Sections £'000	DC Sections £'000	Total £'000
Administration and processing	6,166	-	6,166
Professional fees	1,986	-	1,986
	8,152	-	8,152

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

9 OTHER PAYMENTS

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Life cover policy premium	353	-	353
Loss on foreign exchange	312	-	312
	665	-	665

	2022		
	DB Sections £'000	DC Sections £'000	Total £'000
Life cover policy premium	297	-	297
Loss on foreign exchange*	-	-	-
	297	-	297

*There was no loss on foreign exchange in 2022. See note 10 – other investment income net of foreign exchange gains and losses.

10 INVESTMENT INCOME

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Income from fixed interest securities	5,689	-	5,689
Income from pooled investment vehicles	16,419	-	16,419
Net income from properties	9,380	-	9,380
Annuity income	79,088	-	79,088
Other investment income	180	-	180
	110,756	-	110,756

	2022		
	DB Sections £'000	DC Sections £'000	Total £'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
	108,571	-	108,571

11 INVESTMENT
TRANSITION NOTE

	Notes	Value at 01.01.2023	Purchases cost	Sales Proceeds	Change in Market value	Value at 31.12.2023
		£'000	£'000	£'000	£'000	£'000
DB Sections						
Bonds		129,372	83,441	(74,568)	3,222	141,467
Property	(11c)	169,350	-	-	(28,950)	140,400
Pooled investment vehicles	(11d)	1,079,790	2,676	(7,913)	(18,842)	1,055,711
Insurance policies	(11f)	1,182,175	1	-	(61,276)	1,120,900
		2,560,687	86,118	(82,481)	(105,846)	2,458,478
Cash		28,280				15,798
Other investment assets		2,362				2,610
Other investment liabilities		(3,993)				(2,302)
		2,587,336				2,474,584
DC Sections						
Pooled investment vehicles	(11d)	619,078	154,815	(152,513)	50,980	672,360
AVC investments		14,862	4,241	(3,589)	1,345	16,859
		633,940	159,056	(156,102)	52,325	689,219
Total Investments		3,221,276			(53,521)	3,163,803

AVC investments within the DC Sections include £9.07m (2022: £10.1m) 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.

The Purchases in Bonds represent the re investment of bond maturities (shown as sales) held with Aegon Asset Management Ltd, as well as any excess cash held by the Plan during the year.

The purchases in Pooled Investment Vehicles mainly represent the reinvestment of income from the working capital fund held with Allianz. The sales mainly relate to capital distributions from infrastructure funds, Aberdeen and infrared, and the private equity fund held with Pantheon.

Other investment assets mainly consists of accrued income on bonds held with Aegon Asset Management Ltd and other investment liabilities mainly include accrued expenses within the property fund held with LaSalle Investment Management Limited.

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).

	2023			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
DB Sections				
Bonds	-	141,467	-	141,467
Properties	-	-	140,400	140,400
Pooled investment vehicles	-	631,633*	424,078	1,055,711
Insurance policies	-	-	1,120,900	1,120,900
Cash	15,798	-	-	15,798
Other investment assets and liabilities	308	-	-	308
	16,106	773,100	1,685,378	2,474,584
DC Sections				
Pooled investment vehicles	-	672,360	-	672,360
AVC investments	-	16,383	476	16,859
	-	688,743	476	689,219
	16,106	1,461,843	1,685,854	3,163,803

11(b) FAIR VALUE HIERARCHY (continued)

	Level 1	2022 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	28,280	-	-	28,280
Other investment assets and liabilities	(1,631)	-	-	(1,631)
	26,649	775,261	1,785,426	2,587,336
DC Sections				
Pooled investment vehicles	-	619,078	-	619,078
AVC investments	-	14,340	522	14,862
	-	633,418	522	633,940
	26,649	1,408,679	1,785,948	3,221,276

*The QIAIF investment, which is classed as a pooled investment vehicle, is neither listed nor tradable on a regulated market. The fund is weekly priced; however, the underlying holdings 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

	2023	2022
	£'000	£'000
DB Sections		
Property	140,400	169,350

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 6 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.

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

	2023	2022
	£'000	£'000
DB Sections		
Return seeking		
Private equity fund	10,925	13,596
Property funds	10,687	13,033
Trade finance fund*	54,128	50,981
Infrastructure funds	115,693	109,555
	191,433	187,165
DB Sections		
Liability matching		
Bond fund	161	154
Infrastructure funds	232,484	246,582
QIAIF**	631,633	645,889
	864,278	892,625
	1,055,711	1,079,790
DC Sections		
Equity funds	490,284	460,314
Bond funds	83,251	71,870
Property funds	2,359	2,567
Diversified growth funds***	89,061	76,804
Cash funds	7,405	7,523
	672,360	619,078

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 2023.

	2023 £'000	2022 £'000
Government bonds	677,089	723,284
Payable under repurchase agreements*	(60,707)	(106,502)
Swap assets**	11,452	31,040
Swap liabilities**	(8,009)	(18,296)
Cash and other investment balances	11,808	16,363
	631,633	645,889

* Under repurchase agreements, £63.5m of securities (2022: £84.2m) 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 2023 was £0.6m (2022: £22.0m) and the value received by the Plan was £2.7m (2022: £nil). The collateral is in the form of gilts.

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

Income received during the year from investments held within the QIAIF amounted to £14.8m (2022: £13.4m).

	Nominal amount £'000	Market value of assets £'000	Market value of liabilities £'000
**Swap Contracts			
2023			
Interest rate	87,950	3,452	(4,020)
Inflation rate	122,850	8,000	(3,989)
Total	210,800	11,452	(8,009)
2022			
Interest rate	197,650	24,530	(6,002)
Inflation rate	157,050	6,510	(12,294)
Total	354,700	31,040	(18,296)

The expiration dates of the swap contracts are between 2024 and 2034 (2022: 2024 to 2034). The collateral pledged by the Plan on the initial margin on these contracts is in the form of a government bond valued at £2.1m (2022: £8.7m government bond and cash of £0.1m pledged by the Plan). The net collateral posted on the variation margin at the year end is £3.5m to the Plan by the counterparty (2022: £13.1m posted to the Plan by the counterparty) which collateralises the net gain (2022: gain) 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:

	2023 £'000	2022 £'000
DB Sections		
Annuity policies	1,120,900	1,182,175

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% (2022: 3.9%), price inflation assumptions is BoE gilts RPI curve, with a single equivalent rate of 3.40% (2022: 3.45%) 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 2021 valuation can be seen on page 81).

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 2023, £1,458m (2022: £1,485m) 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	2023 Total £'000	2022 Total £'000
Property	18	-	-	18	-
2023	18	-	-	18	-
2022	-	-	-	-	-

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

11(h) INVESTMENT RISKS

FRS 102 requires the disclosure of information in relation to certain investment risks.

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

Market risk: This comprises currency risk, interest rate risk and other price risk.

- Currency risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate 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.

11(h) INVESTMENT RISKS (continued)

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

	Credit risk	Market Risk						
		Currency	Interest Rate	Other Price	2023 £'000	%	2022 £'000	%
DB Sections								
Return seeking assets								
Pooled investment vehicles	●	◐	◐	◐	191,433	7.7	187,165	7.2
Private equity	●	◐	◐	◐	*10,925*	*0.4*	*13,596*	*0.5*
Property	●	◐	◐	◐	*10,687*	*0.4*	*13,033*	*0.5*
Trade finance	●	◐	◐	◐	*54,128*	*2.2*	*50,981*	*2.0*
Infrastructure	●	◐	◐	◐	*115,693*	*4.7*	*109,555*	*4.2*
Other investment assets	●	○	●	○	33	0.0	46	0.0
					191,466	7.7	187,211	7.2
Liability matching assets and liabilities								
Pooled investment vehicles	●	◐	◐	◐	864,278	35.0	892,625	34.6
LDI (QIAIF)	●	○	◐	◐	*631,633*	*25.6*	*645,889*	*25.1*
Infrastructure	●	◐	◐	◐	*232,484*	*9.4*	*246,582*	*9.5*
Bonds	●	○	●	◐	*161*	*0.0*	*154*	*0.0*
Property	◐	○	○	●	140,400	5.7	169,350	6.5
Bonds	●	○	●	◐	141,467	5.7	129,372	5.0
Cash	●	◐	●	○	15,798	0.6	28,280	1.1
Other investment assets	●	○	●	○	2,577	0.1	2,316	0.1
Other investment liabilities	●	○	●	○	(2,302)	(0.1)	(3,993)	(0.2)
					1,162,218	47.0	1,217,950	47.1
Insurance policies	◐	○	●	◐	1,120,900	45.3	1,182,175	45.7
Total DB investments					2,474,584	100.0	2,587,336	100.0
DC Sections								
Return seeking assets								
Pooled investment vehicles	●	◐	◐	◐	672,360	97.6	619,078	97.7
Equity					*490,284*	*71.2*	*460,314*	*72.7*
Bond					*83,251*	*12.1*	*71,870*	*11.3*
Property					*2,359*	*0.3*	*2,567*	*0.4*
Diversified growth					*89,061*	*12.9*	*76,804*	*12.1*
Cash					*7,405*	*1.1*	*7,523*	*1.2*
AVC investments	●	○	○	●	16,859	2.4	14,862	2.3
Total DC investments					689,219	100.0	633,940	100.0
Total investments					3,163,803		3,221,276	

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

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 21 and 22.

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 Defined Benefit Sections' investments are valued at £2,475m (2022: £2,587m), as shown in the investment risk table on page 67.

Credit risk

The Defined Benefit Sections are subject to credit risk because they directly invest in bonds, insurance contracts, and have cash balances. The Defined Benefit Sections also invest in pooled investment vehicles and are therefore directly exposed to credit risk in relation to the instruments the funds hold within them, and directly to the investment in the QIAIF as the Plan is the sole investor in the bespoke QIAIF.

Direct credit risk has been mitigated in part by the insurance contracts, known as buy-ins, 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, or in other agreed circumstances, the Trustee would have control of the collateral assets, thereby reducing the exposure to the insurers.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and the diversification of investments amongst a number of pooled arrangements.

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 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.

As explained above, 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 there is almost no gearing (borrowing to invest) in the Liability matching portfolio, 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).

11(h) INVESTMENT RISKS (continued)

Credit risk (continued)

As at 31 December 2023, gearing in the LDI (QIAIF) was approximately 1% (2022: 3%) due to the investment manager's use of swaps (see note 11(e)). The Trustee aim to keep the leverage to a minimum in the liability matching portfolio.

The Plan is subject to direct credit risk through the segregated bond portfolio investment managed by Aegon Asset Management (see investment risk table on page 67). The Plan 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 in BBB- or above and sector limits. Aegon Asset Management is also required to ensure the portfolio is highly diversified, thereby avoiding inappropriate risk concentrations.

Cash is held within financial institutions which are at least investment grade credit rated.

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. The investment consultant monitors any changes to the operating environment of the pooled managers on an ongoing basis.

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

	2023	2022
	£'000	£'000
DB Sections		
QIAIF	631,633	645,889
Open-ended investment companies	54,128	50,981
Shares in limited partnerships	359,102	369,733
Unit trusts	10,687	13,033
Mutual institution fund	161	154
	1,055,711	1,079,790

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 67).

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.

11(h) INVESTMENT RISKS (continued)

Credit risk (continued)

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 67) is subject to the risk of the underlying tenant defaulting, hence preventing the receipt of cash flows. This risk is partially mitigated through diversification of tenant but also 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

The Defined Benefit Section investments are, for the most part, sterling denominated; however, currency risk remains in relation to the investment in the infrastructure funds, private equity funds and an investment through the property fund (see the investment risk table on page 67).

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 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.

Interest rate risk

Within the liability matching assets, the Defined Benefit Sections are exposed to interest rate risk because the Plan invests in bonds, insurance contracts, cash, swaps, and repurchase agreements through the buy-ins, bonds funds, infrastructure funds and the QIAIF, as shown in the investment risk table on page 67 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 67.

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).

11(h) INVESTMENT RISKS (continued)

Interest rate risk (continued)

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.

The Trustee, through the Investment Committee, requires that interest rate risk is regularly looked at and reported on, by requesting the 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.

As at 31 December 2023, the liability matching assets and insurance policies represented 92% (2022: 93%) of the total investment portfolio.

Other price risk

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 67). 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 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.

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

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 67. The majority of holdings in the Defined Contribution Sections are held in the default lifecycle arrangement, as explained on page 18 with the associated risk described below.

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 Defined Contribution 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.

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 17 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 17 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.

11(i) SELF-INVESTMENT

In accordance with the Trustee's policy, no direct investments (2022: £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 2023 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 0.4% (2022: less than 0.3%) 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:

	2023		2022	
	£'000	%	£'000	%
DB Sections				
LGAS Buy-in	748,700	23.5	788,266	24.2
Aviva Buy-in	368,200	11.6	388,952	11.9
LGIM QIAIF	631,633	19.8	645,889	19.8
Abrdn Infrastructure Partners LP	190,622	6.0	201,673	6.2
DC Sections				
BlackRock Blended Global Equity	455,318	14.3	429,336	13.2

12 INVESTMENT MANAGEMENT EXPENSES

	2023	2022
	£'000	£'000
DB Sections		
Administration, management and custody	774	536
Investment advisory	750	826
	1,524	1,362

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 48. 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.

14 CURRENT ASSETS AND LIABILITIES

Current Assets

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Cash & cash equivalent	20,158	2,013	22,171
Cash held with Aviva	-	204	204
Pensions paid in advance	6,447	-	6,447
Amount due from DB to DC section	-	1,215	1,215
VAT recoverable	1,477	-	1,477
Prepaid expenses and sundry items	302	-	302
	28,384	3,432	31,816

	2022		
	DB Sections £'000	DC Sections £'000	Total £'000
Cash & cash equivalent	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
	40,926	3,745	44,671

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

Current Liabilities

	2023		
	DB Sections £'000	DC Sections £'000	Total £'000
Unpaid benefits	(662)	(411)	(1,073)
Accrued expenses:			
Administration	(2,373)	-	(2,373)
Investment management expenses	(516)	-	(516)
Amount due to DC from DB section	(1,215)	-	(1,215)
Annuity income paid in advance	(6,822)	-	(6,822)
	(11,588)	(411)	(11,999)

	2022		
	DB Sections £'000	DC Sections £'000	Total £'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)
	(10,171)	(665)	(10,836)

15 TRANSFERS BETWEEN SECTIONS

Transfers between sections of £8.9m from the DB Sections to the DC Sections (2022: £3.5m from DC to DB) relate to the DC employer contributions of £13.7m (2022: nil) per the Schedule of Contributions certified 16 December 2022 and RST payments for DC members of £0.2m (2022: £0.1m) funded by the Plan. This amount is offset by £5m (2022: £4m) which 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. The balance of nil (2022: £0.4m) relates to the timing of payments.

16 INVESTMENT COMMITMENTS

At 31 December 2023, there were the following capital commitments made by the Trustee:

(a) Up to £8,632k (2022: £9,199k) 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.

(b) Up to £1,939k (2022: £1,985k) 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.

(c) Up to £3,503k (2022: £3,713k) to Alinda Infrastructure Parallel Fund II, an infrastructure fund.

(d) Up to £9k (2022: £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.

17 RELATED PARTY TRANSACTIONS

Pearson Pension Trustee Services (PPTS) employs the Plan's Trustee, 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 £3,635,997 (2022: £3,108,005, excludes trustee costs), of which £128,731 (2022: £199,233) relates to accommodation and related services.

Fees paid to Trustee Directors of Pearson Pension Trustee Ltd during the year amounted to £216,848 (included in the above) (2022: £206,524). Expenses paid to Trustee Directors for costs incurred directly in the course of their duties during the year amounted to £nil (2022: £124).

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

At 31 December 2023, the Plan owed PPTS £752,856 (2022: £985,216) and PMS £44,221 (2022: £50,237) due to the timing of invoicing and direct debits.

From 1 April 2023 Pearson Pension Trustee Ltd (PPTL) holds the controlling interest in Pearson Pension Trustee Service Ltd (PPTSL).

The Plan's IT services charges for the year were £50,197 (2022: £50,697) and were provided by Pearson Shared Services Limited (PSS). At 31 December 2023, the Plan owed PSS £345,043 (2022: £240,748) 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 women 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 2023

Contributions payable to the Plan in accordance with the Schedule of Contributions in respect of the year ended 31 December 2023 were as follows:

	2023 £'000
Employer normal contributions	6,682
Employer augmentations	153
Employer additional voluntary contributions	2,148
Members normal contributions	723
Total contributions paid under the Schedule of Contributions*	9,706
Members additional voluntary contributions	591
Contributions disclosed in the financial statements (see page 53, note 3)	10,296

* These contributions were paid in accordance with the Schedules of Contributions certified by the Actuary, this amount includes salary exchange contributions but exclude £13.7m of employer contributions which have been offset against the surplus assets in the DB Sections as agreed between the Employer and the Trustee.

For and on behalf of
Pearson Pension Trustee Limited

J A B JOLL
Chairman
Date: 19 July 2024

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** 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.

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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** 12/16/2022
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.

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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** 12/21/2023
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** 18 July 2024
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

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") has been prepared by the Trustee of the Pearson Pension Plan.

It sets out the Trustee's policies on various matters governing investment decisions for the Pearson Pension Plan ("the Plan"), which has Final Pay and Defined Contribution ("DC") sections. This SIP also covers the Additional Voluntary Contribution arrangements ("AVCs").

This SIP replaces the previous SIP dated September 2023.

This SIP has been prepared after obtaining and considering written advice from LCP, the Plan's investment adviser, whom the Trustee believe to be suitably qualified and experienced to provide such advice. The advice considered 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 plan sponsor in producing this SIP.

The Trustee will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy in the demographic profile of the members invested in the DC default investment option and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

2. Investment objectives for the Final Pay and DC Sections

The primary objective for the Final Pay Sections is to ensure that the benefit payments are met as they fall due. In addition to this primary objective, the Trustee has the following objectives:

- 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 over time broadly aim to protect against cost of living increases.

- As a precondition of the above, the Trustee will endeavour 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.

The Trustee's primary objectives for the DC Sections 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 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 the main DC default arrangement for the Plan. The objective of the Drawdown Lifecycle is to generate returns above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to investments that more closely match the intentions of members.

This is also 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.

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

The aim and objective 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 though exposure to equity and diversified growth funds ("DGFs") and then to gradually diversify their investments in the years approaching retirement. The asset allocation throughout the default Lifecycles and the phasing of the gradual switching of investments aims to take into account members' greater capacity for risk early on and reduced capacity for risk closer to retirement. Each option is designed to reflect the Trustee's belief that most members in that strategy will take their benefits in the specified form.

A default was also created as a 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 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.

Some of the DC members are impacted by a Reference Scheme Test ("RST") underpin.

All policies relating to the DC default options are covered in this SIP, rather than in a separate SIP, so all policies on the Plan's investments are in one document.

The Trustee's investment objective for the AVCs is to make available a suitable range of investment options to meet members' risk / return objectives.

3. Investment strategy

With input from the Plan's advisers and in consultation with the Plan sponsor, the Trustee reviewed the investment strategy for the Final Pay and DC Sections in August 2022, considering the objectives described in Section 2.

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 Final Pay Sections 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, known as buy-in policies 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. The two policies covered approximately two thirds of the pensioner members' liabilities at the time of the transactions. The Plan purchased a further buy-in policy in February 2019 which covered most of the remaining uninsured pensioner members' 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 those which produce cashflows that can be expected to match the Plan's liabilities for a portion of the membership. The Matching Assets include bonds, inflation-linked property and infrastructure.

- 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 consist of an allocation to trade finance, infrastructure, private equity and property.

- The Plan's total allocation as at 31 December 2023 was c.93% to the Insurance portfolio and Matching Assets and c.7% 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 potentially to allow for discretionary increases to members in certain scenarios.

Based on asset-liability modelling as at 30 June 2022, the Plan's invested assets (excluding the Insurance Portfolio), are expected to generate a return of 1.7% 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.

For the DC Sections (which includes the Money Purchase sections and the Auto Enrolment section), the Trustee makes available a range of investment funds for members with different levels of expected risk and return, including equity and bond based funds as well as a cash fund. Each member has the opportunity to specify one or more funds for the investment of their account.

If a member does not choose an investment option, their account will be invested in the main default option, the "Drawdown Lifecycle" which is managed as a "lifecycle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age). The main default initially invests to target a high expected return (making use of equity-based funds) and then gradually switches to investments with a lower expected return and risk as members get close to retirement.

The main default option was designed to be in the best interests of the majority of the members based on analysis of the demographics of the membership. The default option targets drawdown at retirement, since, based on analysis of the membership, the Trustee believes that most members will wish to take their benefits in this form. 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 reflects this analysis having carried out multiple simulations of future economic and investment scenarios.

The Trustee monitors member 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, it is the Trustee's policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as the Trustee's beliefs about investment markets and which factors are most likely to impact investment outcomes.

The primary ways that the Trustee manages investment risk are via diversification, having received professional written advice prior to making any material investment decision, and ongoing monitoring and oversight of the investments. For the Final Pay Sections investment risk is measured using "Value at Risk". For the DC Sections investment risk is measured as standard deviation.

In setting the strategy for the Final Pay Sections it is the Trustee's policy to consider:

- the best interests of members and dependents;
- 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 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; and
- 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.

In determining the investment arrangements for the DC Sections including the default options and for the AVCs it is the Trustee's policy to consider:

- 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.
- 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.

The Trustee also considers any other factors which it believes to be financially material over the applicable time horizons to the funding of the Final Pay Sections, DC and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- Fund management costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is often better value;
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified;
- ESG factors should be considered when making investment decisions, and managers may be able to improve risk-adjusted returns by doing this; and
- climate change is a financially material systemic issue that presents risks and opportunities for the Plan over the short, medium and long term.

5. Implementation of the investment arrangements

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

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 Section, setting out the terms on which the portfolios are to be managed. The DC platform provider makes available the range of investment options to members. There is no direct relationship between the Plan and the underlying managers of the DC investment funds.

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

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 data related to the Plan's investment mandates.

6. Realisation of investments

For the Final Pay Sections, in general, individual investment managers have discretion in the timing of the purchase and sale of investments and in consideration relating to the liquidity of those investments.

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 (IC) 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.

For the DC Sections including the default, the Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments. The default includes an allocation to DGFs via pooled funds (a type of collective investment scheme), that may include an allocation to illiquid assets (of direct property and infrastructure) if the DGF manager chooses to do so. As at September 2023, the exposure to the illiquid assets of direct property and infrastructure constituted around 5% of the DGF allocation. Members from 15 years to retirement (age 47 and above assuming a retirement age of 62) who are invested in the default have exposure to illiquid assets via the DGF allocation.

We believe that long-term net risk-adjusted investment returns may be improved by investing in illiquid assets. However, investment in illiquid assets in DC pension schemes is a relatively new and developing area. Therefore, at this time, it is the Trustee's policy not to invest the DC default in illiquid assets other than via the DGFs. But, with the support of its investment advisers, the Trustee intends to consider investment in more specific illiquid assets as and when appropriate (eg. as part of default strategy reviews) and in the context of the Plan.

7. Financially material considerations and non-financial matters

The Trustee believes that environmental, social and governance (ESG) factors are likely to be an area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG including 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 and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

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 within the parameters of their funds.

The DC sections include an equity investment option focused on ESG risks as a choice for members to select if they wish to. A small number of members also remain invested in an alternative option which takes account of ESG risks; however, this alternative fund option is now closed to new members. The short duration credit fund, which is both available for members to select and part of the default investment strategy, has an explicit commitment to sustainability in its investment objective. At this time, the Trustee does not believe there are any additional ESG-focused investment options available that meet members' needs appropriately in any other asset classes but will keep this under review.

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. 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 an owner 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, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

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 expects the managers to communicate their policies on stewardship to them from time to time, and provide them with reports on the results of their engagement and voting activities at least once a year.

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.

Implementation Statement, covering 1 January 2023 to 31 December 2023

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 September 2023, the previous SIP dated March 2023 and the SIP dated 31 May 2022). This Statement should be read in conjunction with the SIP. The latest version of the SIP and IPID can be found here and here.

1. Introduction

The SIP was reviewed and updated during the Plan year in March and September 2023 to present a more concise format, with optional content (such as which managers are used) moved to a separate Investment Policy Implementation Document ("IPID").

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 and IPID 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.

The SIP and IPID are in the process of being reviewed post Plan year end to reflect the Trustee's policy on illiquid assets and scheduled changes in managers.

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)

During the Plan year, the Trustee conducted the formal triennial strategy review of the Plan, beginning on 8 March 2023. 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 which has been broadly in line with the market. The Trustee decided in the recent review to add the HSBC Islamic Global Equity Fund to the self-select range and is currently in the process of implementing this decision.

3. Investment strategy

3.1. Final Pay Sections

The Trustee has not made any changes to DB investment strategy over the Plan Year. 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. The Trustee makes sure the Scheme's assets are adequately and appropriately diversified between different asset classes.

3.2. Defined Contribution Sections

The Trustee, with the help of its advisers, reviewed the DC investment strategy during the Plan year. The Trustee concluded that 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 Columbia 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 is still a small number of members who have money in the sterling liquidity fund. Communication with these members was recommended to the Trustee as part of the ongoing triennial investment strategy review.

As part of this review, the Trustee made sure the Plan's default arrangements were adequately and appropriately diversified between different asset classes and that the self-select options provide a suitably diversified range to choose from.

4. Considerations in setting the investment arrangements

The Trustee last formally reviewed its investment beliefs in the Final Pay Section in May 2022, when the Trustee made the allocation to trade finance within the DB Section. At the time it had considered the investment risks set out in Part 2 of the IPID. 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 during the Plan year, it considered the investment risks set out in Part 2 of the IPID. 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. The review concluded that the Annuity Targeting Fund should replace the Blended Index-Linked Gilt Fund within the Drawdown Lifecycle to better reflect the fact that members have the ability to purchase an annuity via the In Plan pension option at retirement, and that a cash allocation should be included in the last three years before the target retirement date to help to reduce volatility.

4. Considerations in setting the investment arrangements (continued)

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 previous 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. The outcome of this review was considered in the investment strategy review in 2023, and it was concluded that an allocation to low carbon equities should be considered as part of the Blended Global Equity Fund within the default arrangements. Implementation routes are being investigated further.

4.1 Policy towards risk

Risks are monitored on an ongoing basis with the help of the investment adviser. The Trustee maintains a risk register and this is discussed annually. The Trustee's policy on risks is set out further in section 10.

The Plan's interest and inflation hedging levels are monitored on an ongoing basis in the quarterly monitoring report. Over the Plan year the Plan's hedging levels were broadly in line with the target levels.

With regard to collateral adequacy risk, the Trustee holds investments in the Legal and General Investment Management Sterling Liquidity Fund alongside the Liability Driven Investments ("LDI") portfolio, to be used should the LDI manager require cash to be posted for a deleverage event. The Trustee aims to hold sufficient value to cover the deleverage event of the LDI portfolio in these liquid assets. As at the Plan year end, the Plan held more than enough liquid assets to meet the next capital call on the LDI funds. Note the LDI portfolio utilises minimal / no leverage.

Together, the investment and non-investment risks give rise generally to funding risk. The Trustee also informally monitors the funding position more regularly, on a quarterly basis at Trustee meetings, and the Trustee has the ability to monitor this daily on LCP Visualise.

The quarterly report reviewed during the year showed that the majority of DC managers have produced performance broadly in line with expectations over the long-term. However, due to the adverse market conditions for fixed income in 2022, some of the longer-term performance was lower than usually expected in this time frame. The Trustee discussed some concern regarding the expected future performance of two of the diversified growth funds used in the Diversified Multi-Asset Fund. These funds will continue to be monitored.

5. Implementation of the investment arrangements

The Trustee has not made any changes to its manager arrangements for the Final Pay and DC Sections over the Plan year.

The Trustee invests for the long term, to provide the pension 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 those funds 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 2023, performance improved substantially from the previous Plan year given the challenging market conditions over 2022.Inflationary pressures and rising interest rates continued to negatively impact longer-term returns, but returns over the year to 31 December 2023 were all positive. As a result of continued high inflation, 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 improved market environment in 2023, the Trustee remains comfortable with the majority of its investment manager arrangements over the year. However, the Trustee has concerns regarding the expected future performance of two of the diversified growth funds used in the Plan's DC Section. All funds were reviewed as part of the investment strategy review and it was agreed that the performance of these two funds will be monitored closely in future to ensure they continue to fulfil the Plan's investment objectives.

The Trustee also reviewed 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 concluded that an allocation to low-carbon equities would be suitable for inclusion in the Blended Global Equity Fund. Implementation routes are being considered.

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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.

5. Implementation of the investment arrangements (continued)

The Trustee undertook a value for members assessment on 20 June 2024 for the Plan year to 31 December 2023 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 sized 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 while 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.

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.

The Trustee is currently reviewing its policy on investing in illiquid assets as part of the ongoing SIP review.

7. Consideration of financially material and non-financial matters

During the Plan year, the Investment Committee received training on illiquid assets and Shariah-compliant funds, to broaden the Committee's understanding of alternative asset classes for inclusion in the fund range. The Trustee also had a recap on climate in the broader equity universe to aid fund selection of the low-carbon equity fund to be added within the default; however, no formal training on climate was undertaken in the Plan year.

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, whilst manager scores and red flags are based on LCP's Responsible Investment Survey 2022. The scores given to managers within the Plan are included in the quarterly performance monitoring reports. The Trustee was satisfied with its reviews of the RI scores and no further action was taken. The managers are in the process of completing the 2024 LCP Responsible Investment Survey and any actions necessary based on the results will be undertaken.

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 and is in the process of seeking a low-carbon equity fund for inclusion in the default in the next Plan year.

Within the Plan's DC assets, the Trustee recognises that some members may wish for specific non-financial matters to be taken into account in their investments and therefore it is in the process of making available a Shariah-compliant equity index fund.

The Trustee does not consider 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.

8. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Trustee takes ownership of the Plan's stewardship by monitoring and engaging with managers as detailed further below.
The investment managers' stewardship policies are:

- BlackRock: Investment Stewardship | BlackRock
- Baillie Gifford: Our Stewardship Approach: ESG Principles and Guidelines (bailliegifford.com)
- Schroders: How we vote at Schroders| Schroders global
- Newton: Sustainable & Responsible Investing | Newton (newtonim.com)
- MFS: Responsible Investing Policy Statement (mfs.com)
- Columbia Threadneedle: Responsible Investment - Engagement policy and approach.pdf (columbiathreadneedle.com)
- Jupiter: Jupiter Stewardship Policy

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 at the beginning of the Plan year in January 2023 and these did not change throughout the Plan year. The Plan's managers acknowledged the Trustee's priorities and its expectations of the managers and shared relevant information on their approaches to stewardship. As a result, the Trustee has now looked to understand and report on voting decisions made by managers which align with the Trustee's stewardship priorities.

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.

8. Voting and engagement (continued)

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 October 2023 the Trustee met with Legal and General Investment Management to discuss the LDI portfolio.

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. As such, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

9. Investment governance, responsibilities, decision-making and fees (Part 1 of the IPID)

The Trustee has set out in Part 1 of the IPID 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 October 2023.

The Trustee carries out an annual evaluation of how its board and committees are run. In 2023, the survey was carried out successfully, and the Trustee believes it is well placed to fulfil its role as Trustee to the Plan.

10. Policy towards risk (Part 2 of the IPID)

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 November 2023 Audit and Risk Committee ("ARC") meeting and was approved in the November 2023 Trustee papers.

The Trustee's policy for some risks, given their nature, is to understand them and to address them should it become 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 quarterly basis over the year and was satisfied that were no issues over the year.

10. Policy towards risk (Part 2 of the IPID) (continued)

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 Part 2 of the IPID 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. The Trustee reviewed this as part of the last triennial valuation at the 1 January 2021 Valuation. The Trustee also informally monitors 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 (Part 3 of the IPID)

There are no specific policies in this section of the Plan's IPID, which sets out details of the Plan's investment managers and their investment guidelines. In 2023, the Trustee updated this section to detail the underlying allocation of the Drawdown Lifecycle for all periods to retirement.

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. They also produce an Investment Stewardship Summary every year.

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, Institutional Shareholder Services ("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.

12.1 Description of the voting processes (continued)

Baillie Gifford

All of Baillie Gifford's voting decisions are made by its ESG 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, votes 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. 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 recognised 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.

12.1 Description of the voting processes (continued)

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, £m	3,404.2	757.5	454.9	3,344.7	755.8	424.9	3,020.9
Value of Plan assets at end of reporting period[1], £m	141.1	141.1	141.1	31.9	30.4	30.4	30.4
Number of equity holdings at end of reporting period	1,461	2,985	336	1,750	50	723	70
Number of meetings eligible to vote	967	3,593	334	3,763	50	759	71
Number of resolutions eligible to vote	14,713	43,420	4,954	29,932	528	9286	1,139
% of resolutions voted	97	94	97	97	92	94	99
Of the resolutions on which voted, % voted with management[2]	94	94	96	87	97	89	92
Of the resolutions on which voted, % voted against management[2]	5	5	3	12	2	11	8
Of the resolutions on which voted, % abstained from voting[2]	0	1	0	2	0	1	0
Of the meetings in which the manager voted, % with at least one vote against management	32	27	23	42	16	53	34
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy adviser	0[3]	0[3]	0[3]	0[3]	N/A[4]	8	5

[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.

12.2 Summary of voting behaviour over the year (continued)

[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.

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.

12.3 Most significant votes over the year (continued)

BlackRock World Equity Index Fund

Restaurant Brands International ("RBI"), May 2023
Summary of resolution: Shareholder Proposal to Report on the Company's Business Strategy in the Face of Labour Market Pressure
Outcome of the vote: Fail
Management recommendation: Against
Fund Manager Vote: Against
Size of mandate's holding at voting date: 0.04%
The reason the Trustee considers this vote to be "most significant": The vote relates to one of the Trustee's stewardship priorities.
Relevant Stewardship Priority: Corporate Transparency
Was vote decision communicated ahead of vote: No

Rationale for the voting decision: BlackRock acknowledges that quantitative franchise-wide reporting on workforce-related issues is not common practice among franchisors due to the differences in legal liabilities between franchisors and franchisees on labour and employment matters. They also acknowledge the challenges for RBI of building partnerships with franchisees in order to collect the requested indicators and information, given that nearly all of the company's restaurants are operated by franchisees. When considering its vote, BlackRock recognised the complexities in fulfilling this resulting from nearly all of RBI's restaurants operating under a franchise model, as well as considering that RBI indicated that they are committed to improving disclosures in the near term. Accordingly, they did not support the shareholder proposal.
Outcome and next steps: BlackRock show understanding that the regulatory context continues to evolve in the U.S.; nevertheless, it recognises the industry is evolving towards more robust disclosures on material labour-related risks and will be monitoring the company,s progress in keeping up with best practices. Therefore, BlackRock determined it would be more constructive to continue to monitor company progress on this issue than to vote for these reporting measures.

BlackRock Minimum Volatility Index Fund

YUM! Brands, Inc., May 2023
Summary of resolution: Shareholder Proposal Regarding Issuance of a Report on Efforts to Reduce Plastics Use
Outcome of the vote: Fail
Management recommendation: Against
Fund Manager Vote: Against
Size of mandate's holding at voting date: 0.08%
The reason the Trustee considers this vote to be "most significant": The vote relates to one of the Trustee's stewardship priorities.
Relevant Stewardship Priority: Climate Change
Was vote decision communicated ahead of vote: No

12.3 Most significant votes over the year (continued)

Rationale for the voting decision: This shareholder proposal requested that Yum!'s board issue a report "describing how the Company will reduce its plastics use by shifting away from single-use packaging" in response to recent regulatory trends which have levied taxes on and/or banned the use of single-use plastic products. The proposal further clarified that such a report should explicitly "evaluate dramatically reducing the amount of plastic" used in the company's packaging. BlackRock did not support this proposal, as it believes Yum!'s existing disclosures on plastics use – particularly their new packaging policy and reduction goals – are comprehensive and provide sufficient information to allow investors to understand the company's approach to managing the risks of plastics use. BlackRock has engaged with Yum! to understand the board's oversight of, and management's approach to, climate-related risks and opportunities in the context of the franchised business model and their markets of operation. BlackRock stated that it is unlikely to support shareholder proposals that are intended to "micromanage" companies, which they felt applied to this proposal.
Outcome and next steps: The outcome for the vote was a fail, which corresponded with BlackRock's vote. BlackRock clarified that where company reporting and disclosure is inadequate, or where it believes the approach taken may be inconsistent with durable, long-term value creation, it will vote in a manner that signals their concerns.

BlackRock Fundamental Equity Index Fund

Shell plc., May 2023
Summary of resolution: Request Shell to align existing reduction targets and greenhouse gas emissions with the Paris Agreement
Outcome of the vote: Fail
Management recommendation: Against
Fund Manager Vote: Against
Size of mandate's holding at voting date: 0.95%
The reason the Trustee considers this vote to be "most significant": The vote relates to one of the Trustee's stewardship priorities.
Relevant Stewardship Priority: Climate Change
Was vote decision communicated ahead of vote: No

Rationale for the voting decision: Currently, Shell has set a target to reduce the net carbon intensity of their energy products by 20% by 2030 compared to 2016. They have also developed and disclosed their approach to demonstrate how their targets are aligned with the goals of the Paris 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. Therefore, BlackRock did not consider it in the financial interests of its clients to support this shareholder proposal. In BlackRock's assessment of Shell's Energy Transition Strategy, the company is addressing the risks and opportunities in its business model stemming from a low carbon transition and has demonstrated that it is delivering against its stated plan.
Outcome and next steps: The outcome of this vote failed, which BlackRock believes avoids the possibility of prescriptive and undue constraints on management's decision making. Adhering to the proponent's ask would have required Shell to reduce product sales or alter its business composition, which would have impacted the company's financial strength.

12.3 Most significant votes over the year (continued)

BlackRock World Emerging Markets Equity Index Fund

Banco de Chile SA, March 2023
Summary of resolution: Elect Andrónico Luksic Craig as Director & Elect Francisco Pérez Mackenna as Director
Outcome of the vote: Pass
Management recommendation: For
Fund Manager Vote: Against
Size of mandate's holding at voting date: 0.06%
The reason the Trustee considers this vote to be "most significant": The vote relates to one of the Trustee's stewardship priorities.
Relevant Stewardship Priority: Corporate Transparency
Was vote decision communicated ahead of vote: BlackRock endeavours to communicate to companies when it intends to vote against management, either before or just after casting votes in advance of the shareholder meeting.

Rationale for the voting decision: BlackRock voted not to support the election of two directors because it was concerned that their service on an excess number of outside public boards could limit their ability to fulfil their oversight duties at Banco de Chile. They already serve on seven and eight public company boards, respectively. BlackRock's concern is that when directors serve on too many boards, they may not have capacity to fulfil their duties on each, particularly in times of crisis.
Outcome and next steps: Contrary to BlackRock's vote, this resolution was passed. This means that there are possible conflicts or limitations of the two board members who have other commitments. BlackRock will continue to monitor Banco de Chile's steps to enhancing their corporate governance structures, including board quality and director commitments.

Baillie Gifford Multi Asset Growth Fund

NEXTERA ENERGY, INC., May 2023
Summary of resolution: Provision of a board diversity and quali´cations matrix
Outcome of the vote: Fail
Management recommendation: Against
Fund Manager Vote: For
Size of mandate's holding at voting date: 0.07%
The reason the Trustee considers this vote to be "most significant": This resolution is significant because it was submitted by shareholders and received greater than 20% support, and the vote relates to one of the Trustee's stewardship priorities.
Relevant Stewardship Priority: Corporate Transparency

Was vote decision communicated ahead of vote: No

12.3 Most significant votes over the year (continued)

Rationale for the voting decision: Baillie Gifford supported a shareholder resolution requesting a board diversity and qualifications matrix because it believed that shareholders would benefit from individualised information on the skills and qualifications of directors, as well as disclosure on climate-related skills and qualifications.
Outcome and next steps: Baillie Gifford has communicated its concerns to the company and it will be monitoring the development of corporate governance structures.

Schroder Life Sustainable Future Multi-Asset Fund

Alphabet
Summary of resolution: Report on Framework to Assess Company Lobbying Alignment with Climate Goals
Outcome of the vote: Fail
Management recommendation: Against
Fund Manager Vote: For
Size of mandate’s holding at voting date: 0.9%
The reason the Trustee considers this vote to be “most significant”: This resolution is significant as the vote relates to one of the Trustee’s stewardship priorities.
Relevant Stewardship Priority: Climate Change
Was vote decision communicated ahead of vote: Schroders may tell the company of its intention to vote against the recommendations of the board before voting, in particular if they are large shareholders or if we have an active engagement on the issue.

Rationale for the voting decision: Shareholders would benefit from additional disclosure on how the company’s lobbying activities align to its climate goals and how it addresses any misalignment with its trade associations and other indirect lobbying activities.
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, it may escalate 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.

12.3 Most significant votes over the year (continued)

Newton Real Return Fund

Lockheed Martin Corporation, April 2023
Summary of resolution: Report on efforts to reduce full value chain GHG emissions in alignment with Paris Agreement goal.
Outcome of the vote: Fail
Management recommendation: Against
Fund Manager Vote: For
Size of mandate's holding at voting date: 1.0%
The reason the Trustee considers this vote to be "most significant": The Trustee determined this vote as significant owing to the rarity of a shareholder proposal receiving significant support, and the vote relates to one of the Trustee's stewardship priorities.
Relevant Stewardship Priority: Climate Change
Was vote decision communicated ahead of vote: No

Rationale for the voting decision: Newton supported a shareholder proposal asking for a report on efforts to reduce full value chain GHG emissions in alignment with Paris Agreement as in its view, more information on the company's plans to transition towards a low carbon economy would help shareholders better assess this risk.
Outcome and next steps: The support received for the shareholder proposal was substantial and must be accounted for but not sufficient for the resolution to pass. Newton expects the company to provide enhanced disclosures especially around setting timelines to implement a scope 3 emission reduction goal and finding efficiencies in processes moving forward.