Statement of Investment Principles – Vodafone Group Pension Scheme

Introduction

1 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the Vodafone Group Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Scheme's Investment Consultant (Redington Limited) and consulted Vodafone Group Plc (the 'Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

3 Fund details:

a The Vodafone Group Pension Scheme consists of two sections (the "Sections"): the Vodafone Group Pension Scheme Section ("Vodafone Section") and the Cable and Wireless Worldwide Retirement Plan Section ("CWW Section").

b Both Sections operate for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

Scheme objectives

4 The Trustee has the following objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of current and future benefits which the Scheme provides.
- To limit the risk of assets failing to meet the liabilities, both over the long term and on a shorter-term basis.
- To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

5 In determining the Scheme's investment objectives, the Trustee has had regard to historical rates of return earned on the various asset classes available for investment, as well as forward-looking assumptions of the expected future returns on those asset classes and the expected short-term volatility of the asset classes.

6 The Trustee has put in place a De-Risk Plan for the Scheme with the intention of reducing the "target return" of the Scheme's investment portfolio and increasing the level of liability hedging (the "target hedge ratio") over time as the self-sufficiency funding level improves. The target return and target hedge ratio for the purposes of this SIP for the Vodafone Section and the CWW Section are shown in the Schedule to this statement.

Those terms are explained more fully in the Schedule. In summary:

- target return – is the annual percentage by which the investment portfolio for each Section is targeted to outperform a portfolio of liability matching gilts over the next 10 years with a 1 in 2 chance of the actual return on the portfolio exceeding the target return on the same basis (assuming the portfolio is held constant over time). For the purpose of this assessment the Project Square Bulk Purchase Annuity Policies are assumed to earn a return in line with the prevailing self-sufficiency discount rate. For the CWW Section, the Prudential Bulk Purchase Annuity Policy is excluded.

- target hedge ratio – is the Trustee's target for the sensitivity of the value of the assets of each Section to variations in interest rates and inflation expectations, expressed as a percentage of the sensitivities of each Section's liabilities (calculated on a self-sufficiency basis) to movements in interest rates and inflation expectations. In determining the level of hedging an allowance will be made for the Project Square Bulk Purchase Annuity Policies in both the assets and liabilities, however for the CWW Section the Prudential Bulk Purchase Annuity policy will be excluded.

Where the Trustee changes the target return and/or target hedge ratio for one of the Sections it will: take investment advice from the Investment Consultant on any re-shaping of the portfolio of investments held under that Section; and aim to implement any changes that it approves within a reasonable period.

Investment strategy

7 The Trustee will take regular advice to determine an appropriate investment strategy for each Section of the Scheme. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently and has therefore delegated responsibility for investment decisions to its Investment and Funding Committee (“IFC”) with agreed Terms of Reference. All decisions of the IFC will be recorded in committee minutes and made available to the full Trustee Board.

8 The Trustee can make use of a wide range of investments:

– using a range of instruments that provide a better match to changes in liability values, including inflation and interest rate gilts and/or swaps.

– Sale and repurchase agreements in respect of securities (also known as “repo transactions”). These may be documented under a general master repurchase agreement or any similar transactional document. The purpose of the “repo transactions” is to reduce risk in the Scheme, facilitate efficient portfolio management and provide liquidity for the Scheme on a temporary basis.

– Bulk Purchase Annuity policy which significantly improves the degree of matching for a significant proportion of the liabilities.

– a diversified range of return-seeking assets, including (but not limited to) public equity, private equity, diversifying strategies (strategies designed to be uncorrelated with traditional equity and bond markets), corporate bonds, property, secure income assets (assets which provide secure contractual income streams for investors), insurance and commodities.

– Synthetic exposures are occasionally preferred over physical holdings to improve collateral efficiency in the Scheme's liability hedging portfolios.

- Illiquid assets may be held where it is believed a significant return premium will be achieved, however liquid assets are generally favoured.

  The Trustee makes use of both passive and active management in the Scheme's asset portfolios.

9 The Trustee makes these investments through pooled vehicles and funds, including contracts where returns are calculated by reference to actual or notional funds, as well as by appointing investment managers to manage segregated portfolios.

10 The balance within and between these investments will be determined from time to time with a view to ensuring that the expected overall long term return on the investments remains broadly consistent with the objectives as set out in paragraphs 4 and 6, above.

11 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

12 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

13 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective. It is the Trustee's policy that the investment strategy and asset allocation of the Scheme will be structured so as to ensure that the expected long term return on the investment portfolio is consistent with achieving the overall objectives as set out in paragraph 4 and 6, above.

14 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Investment managers

15 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently. Similarly, where the Trustee invests in pooled vehicles and funds, responsibility for the management of the underlying assets rests with the investment managers of the funds. Prior to any new appointment of a manager or investment in a pooled vehicle or fund, the Trustee will seek advice from the Investment Consultant on the suitability of the appointment or investment proposed. It will also, periodically, seek further advice on the ongoing suitability of its appointments and investments.

16 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme's investment managers to its Investment Consultant.

17 The agreements between the Trustee and its Investment Managers will continue either in perpetuity or until the end of the lifespan of the investment with the investment manager unless the Trustee or the investment manager takes measures in line with the investment management agreement to cease the agreement. The investment management agreement may be ceased for a number of reasons, for example financial performance or policies in relation to Environmental, social and governance (ESG)issues.

18 The Trustee will evaluate the investment managers' performance in light of the specific mandate it expects the investment managers to carry out on the Scheme's behalf. This forms part of the Trustee's periodic review of the suitability of the Scheme's mandates in the context of the Scheme's wider investment strategy, including considering whether the balance between different kinds of investments remains appropriate, the expected return on the investments and the risks to which the Scheme is exposed. Further reviews are carried out based on changes in the Scheme's circumstances, market conditions or the Investment Consultant's views of a particular manager.

19 On behalf of the Trustee, the Scheme's investment advisor engages with investment managers on a regular basis to understand their continuing approaches to Responsible Investment and ESG issues, ensuring that the funds invested in remain appropriate and consistent with the Trustee's approach, policies and objectives.

20 The Trustee appoints its investment managers with an expectation of a long-term partnership, which incentivises active ownership of the Scheme's assets and effective ESG management (which the Trustee believes is best reflected in the overall long-term performance of the manager). When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

21 The Trustee's policy is to take into account factors that are considered to be financially material, such as potential future returns and risks of any investments made. ESG-related matters (which include broad corporate governance issues, effective stewardship and more specific considerations such as climate change and research and development practices) are considered to be financially material by the Trustee. The Trustee expects that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties.

22 The Trustee recognises that a company's long-term financial success is influenced by a range of factors including appropriate management of ESG issues. Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interest of the members of the Scheme. Where ESG factors are considered to be financially material, the Trustee will consider these factors over an appropriate time horizon which the Trustee considers the investments will be needed for funding benefits payable for the Scheme.

23 The Trustee expects its investment managers, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and ESG issues concerning the Trustee's investments. The Trustee believes such engagement will protect and enhance the long-term value of its investments and incentivise the investment managers to take a long-term view of the performance of its investments. The Trustee reviews

its investment managers' policies in these areas to satisfy itself that they broadly meet with the Trustee's views.

24 In order to incentivise the investment managers to align their investment strategies and decisions with the Trustee's policies, the Trustee (with the assistance of the Investment Consultant): (i) assesses the managers' policies, processes and views when selecting the investment managers; (ii) sets investment objectives and benchmarks to be complied with by the investment managers which reflect relevant Trustee policies; and (iii) monitors the investment managers' performance and the Investment Consultant's views of the managers.

25 Should the Trustee's monitoring process reveal that, in its view, a manager's portfolio is not sufficiently aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the investment management agreement. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

26 Other matters considered by the Trustee to be non-financial matters, such as members' views, are not taken into account.

27 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The managers are expected to exercise these rights and engage with companies with care and diligence that could be reasonably expected of a prudent professional discretionary investment manager, taking into account any relevant Trustee policies adopted from time to time and their impact on eligible participants and beneficiaries of the Scheme over an appropriate time horizon. The Trustee does not explicitly monitor manager's alignment with Trustee policies on voting.

28 The Trustee encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the UK Stewardship Code published by the Financial Reporting Council. The Trustee will monitor the activities of all of its managers on a regular basis but appreciates that its applicability may be limited for certain asset classes.

29 Transaction costs

a The Trustee, with the help of the Investment Consultant, monitors the level of transaction costs (including commissions) across the Scheme incurred by each Investment Manager through regular engagement with the manager on this subject and through receipt of MiFID II compliant cost reporting.

b There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by investment managers) which the Trustee adheres to. The Trustee, with the help of the Investment Consultant, will monitor that the level of portfolio turnover remains appropriate in the context of the investment managers' strategy and the Scheme's investment strategy.

30 Fees

a The Trustee, with the help from the Investment Consultant, has worked to ensure that the investment managers appointed are renumerated in such a way that they are not disincentivised to act in the best interests of the Trustee.

b The investment managers are paid ad valorem fees for their services based on the value or exposure (applicable to some investment managers that employ leverage to increase the exposure of assets they manage) of the Scheme's assets under management.

c Fees are also paid to the Scheme Actuary and the Investment Consultant.

Other matters

31 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

32 The Scheme's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

33 The Trustee recognises a number of risks involved in the investment of the Scheme's assets:

– Solvency risk and mismatching risk
  - is addressed through the asset allocation strategy and through ongoing triennial actuarial valuations.
  - is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
– Manager risk
  - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy.
  - is managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
– Cashflow risk:
  - is measured by the level of cashflow required by the Scheme over a specified period.
  - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
– Liquidity risk:
  - is measured by how quickly the Scheme's assets can be realised into cash or cash equivalent assets.

  - is managed by assessing the overall liquidity dealing terms of the portfolio, and maintaining a sufficient overall level of holdings in appropriately liquid assets.

- Currency risk:

  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values.

  - is managed by reducing the translation risk of investing overseas by hedging a proportion of the overseas investments' currency translation risk for those overseas currencies that can be hedged efficiently.

- Custodial risk

  - is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

  - is addressed through the ongoing monitoring of the custodial arrangements. Restrictions are applied to who can authorise transfer of cash and the account to which transfers can be made.

- Political risk

  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

  - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

- Employer risk

  - is measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit.

  - is managed by assessing the interaction between the Scheme and the Employer's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

- Derivatives risk

  - is measured through the monitoring of the activities of the investment managers.

  - is managed through the use of standard ISDA documentation, appropriate Credit Support Annexes and collateral management.

  - is managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

  - The Trustee may permit the investment managers to use derivative instruments if they contribute to a reduction of risks or facilitate efficient portfolio management.

- Bulk Purchase Annuity (BPA) policy

  - For the Prudential BPA, counterparty risk is addressed through securities structures included within the policy, and regular monitoring via the Investment Consultant. The Project Square BPA counterparty risk is mitigated to some extent because if the

Scheme Actuary writes down the value of the BPA (for example, due to concerns about L&G's creditworthiness) the Employer may be required to provide more collateral to one or both Sections under the security arrangements in place or intended to be in place between the Trustee and the Employer.

Vodafone Group Pension Trustee Limited

Trustee of the Vodafone Group Pension Scheme

30 June 2023

Schedule

Target return and target hedge ratio adopted by the Trustee for the purposes of this SIP

Vodafone Section

Target return: 2.0% p.a.

Target hedge ratio: up to 95% (including an allowance for the 2017 and 2020 Project Square buy-ins)

Note: These targets are the "Target Return" and the "Target Hedge Ratio" as defined in the master agreement for the Vodafone Section dated 26 February 2010 (as amended) between the Trustee and the Employer.

CWW Section

Target return: 1.0% p.a.

Target hedge ratio: up to 103% (including an allowance for the 2017 Project Square buy-in, but excluding the Prudential buy-in)

Note: These targets are the “Target Return” and the “Target Hedge Ratio” as defined in the master agreement for the CWW Section dated 1 November 2017 (as amended) between the Trustee and the Employer.