# McKinsey & Company, Inc.
# UK Additional Plan

## Statement of Investment Principles

September 2020

# Statement of Investment Principles

## 1. Introduction

### Purpose of the Statement

McKinsey & Co Inc (UK) Pensions Trustees Limited (the 'Trustee") of the McKinsey & Company, Inc. UK Additional Plan ("the Plan") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 19951 ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code. It supersedes the previous Statement of Investment Principles, dated May 2017.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Contribution assets.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy. Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Plan's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

This document describes the investment policy of the McKinsey & Co Inc (UK) Pension Trustees Limited (the "Trustee") in respect of the McKinsey & Company, Inc. United Kingdom Additional Plan (the "Plan") and is issued by the Trustee to comply with Section 35 of the Pensions Act 1995 as amended by Pensions Act 2004 and Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 SI 2005/3378.

The Plan's Principal Employer is McKinsey & Co Inc United Kingdom (the "Principal Employer").

Copies of this document have been provided to the Principal Employer, the Plan's Investment Advisers and the Plan's Investment Managers. Copies are available to members of the Plan on request.

### Plan Details

The Plan is a defined contribution occupational pension scheme operated for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. All the benefits it provides are based on the accumulated funds in each member's Retirement Account and there are no guarantees of performance.

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

### Advice and Consultation

Before preparing this statement, the Trustee has sought and considered advice from the Plan's Investment Advisers. The Trustee has also consulted the Principal Employer concerning the contents of this statement.

### Investment Powers

The investment powers of the Trustee are set out in the Trust Deed and Rules at clause 13. This statement is consistent with those powers.

The Trustee sets general investment policy following advice from its appointed Investment Advisers. It's appointed Investment Managers take responsibility for day-to-day investment decisions, subject to regular review and monitoring.

### Investment Expertise

The Trustee is satisfied that the Plan's Investment Advisers and Investment Managers are qualified (in their respective areas of responsibility) to advise on financial matters and have appropriate knowledge and experience of the management of the investment of pension schemes, such as the Plan.

### Review of the Statement

The Trustee's policy is to review this statement at one formal meeting in each calendar year and immediately following any significant changes in investment policy.

## 2. Investment Advice and Management

### Investment Advisers

The current investment advisers are XPS Pensions Group ("XPS") and MIO Partners EU Limited ("MIOEU")(and together the "Investment Advisers").

XPS advises primarily in relation to passive choices offered to members. XPS is remunerated on a time cost basis. The Trustee believes that this method of remuneration is appropriate because it enables XPS to provide necessary advice and information as needed by the Trustee and because the level of advice required can be variable.

MIOEU (which is regulated by the Financial Conduct Authority) advises solely in relation to Compass Offshore Special Situations PCC Limited (“COSS”) and its respective share classes that are made available as investment choices for members. MIOEU is a wholly owned subsidiary of McKinsey & Co, Inc as are the Trustee and MIO Partners Inc. ("MIO").

MIO is the Investment Manager of COSS which is offered as the active investment choice to members of the Plan and of other pension plans for employees of McKinsey & Co, Inc affiliates. MIO is registered as an investment adviser with the U.S. Securities Exchange Commission.

The Trustee has considered the conflict of interest that is posed by the appointment of an in-house investment adviser and an in-house investment manager (on the advice of an in-house investment adviser). The Trustee has determined that any real or potential conflict arising from the use of internal investment advisers and managers does not result in a detriment to the members and beneficiaries of the Plan. This is in part because MIOEU and MIO are not, and are not intended to be, profit centres, but have as a primary purpose providing investment products that seek maximisation of risk-adjusted investment return for pension plans sponsored by McKinsey, including Plan participants, and current and former McKinsey Partners that invest in MIO managed products and also because the Trustee believes that MIOEU and MIO offer a resource which should be available to all McKinsey employees, not just Partners.

McKinsey & Co, Inc. (not the Trustee) pays a portion of the operating expenses and certain other expenses of MIOEU. MIOEU does not currently charge the Plan for its advice.

MIO (and the other Investment Managers) are remunerated by receiving a fee expressed as a percentage of the Plan's assets under management and this includes investment management and custodian charges. Broker commission charges and other transaction services are paid in addition and are deducted from the funds managed. MIO's charges are limited to the costs it incurs in the management of the funds with no profit element. The Board of Directors of MIO monitors MIO’s operation costs and the fees charged to investors in MIO managed products to satisfy itself that the costs are appropriate.

### Investment Managers

Two investment managers are currently appointed to manage the investment choices offered by the Trustee: MIO and Legal & General Investment Management Limited ("LGIM") (and together the "Investment Managers").

LGIM is authorised by the Financial Conduct Authority. MIO is exempt from authorization or otherwise not required to be authorized by the Financial Conduct Authority.

The Trustee believes that the method of remunerating the Investment Managers (described above) is appropriate as it provides an incentive for the active manager to maximise returns whilst adhering to a level of risk appropriate for Plan members.

It is acknowledged by the Trustee that fees for active managers are significantly higher than those of their passive counterparts but the Trustee accepts that this reflects the nature of the management and associated objectives.

Appointments of Investment Managers are expected to be long-term, but the Trustee will review the appointment of the Investment Managers in accordance with their fiduciary duties.

The Trustee, where practicable, require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence. The Investment Consultant, where practicable will monitor this on an on-going basis.

## 3. Investment Policy

### The Plan

The main characteristics of the Plan that are relevant to the development of an appropriate investment strategy are as follows:

- The current population of the Plan is young, with a majority of members under the age of 45, and few over the age of 55.
- The Plan provides defined contribution benefits for members. The assets of the Plan are attributed to members' Retirement Accounts, which are used to purchase benefits for members age 55 and over at the member's request.
- When benefits come into payment it is the Trustee's policy to purchase an annuity contract or policy or other pension product (such as a draw-down product) in the name of the member to discharge their obligations under the Plan.
- Assets that have not been allocated to members' Retirement Accounts are allocated to a Reserve Account. It is the Trustee's policy to invest all of the Reserve Account in a cash fund.

### Trustee objectives and principles

The Trustee's objective is to offer members an appropriate range of investment choices to suit different risk appetites and tolerances that includes both actively and passively managed funds. This gives members the opportunity to choose investments that reflect their own individual preferences.

In choosing which funds to offer, the Trustee applies the following principles:

At least one broad-based actively managed fund should be offered in order to give members opportunity for value-added investment return beyond what is available tracking relevant bond or equity markets. This can be accomplished through investment in a portfolio that includes non-traditional asset classes, so long as the risks attached to these investments are diversified and the portfolio as a whole is managed in a manner appropriate for pension scheme members.

- Investment risk and volatility in an actively managed fund for members should be kept to prudent levels; however, a degree of investment risk and volatility should be tolerated because pension scheme members are long-term investors who require growth overtime and as previously noted Plan members are predominantly under age 45.
- A range of passive funds in core asset classes should be offered so that those members who do not wish to participate in an actively managed fund, or who wish to construct their own portfolio, may do so.
- An appropriate passive offering will include a range of index funds representing each of the major traditional asset classes, including UK and global equities, and both fixed and inflation-adjusted gilts. It should also include at least one blended fund that allows for diversified passive holdings in traditional asset classes.
- The Trustee encourages members to choose their investments. Members who are likely to choose an annuity at retirement are encouraged to adjust the balance between growth and risk in their portfolios moving towards less volatile investments as they come closer to retirement age, or to choose the Lifestyle Active Portfolio which makes automatic adjustments to asset allocation as they age.
- The number of funds (both active and passive) available to choose from should be appropriately diverse but it is not in members' interests to offer too many funds as this can discourage members from making investment choices.
- All members should be encouraged to invest in their pensions and where there is evidence that members require or would be more comfortable investing in funds conforming to particular religious or ethical preferences, the trustee will consider offering such funds.

Taking into account its objectives and these principles, the Trustee has chosen COSS (its dollar, euro, sterling and multi-currency denominated share classes) as its active fund choice and a selection of LGIM funds as its passive funds choice.

## General Policy on compliance with Section 36 of the Pensions Act 1995

The Trustee's policy is to review regularly the investments over which it retains control and to obtain written advice about them when necessary. The written advice will consider suitability of the investments taking into account the needs of the members and the composition of the portfolio as a whole, the principles within this Statement and compliance with relevant legislation. The Investment Advisers consulted will have the knowledge and experience required under Section 36(6) of the Pensions Act 1995.

## Default Fund

The Trustee provides a default fund that will be used in the event that a member fails to make choices regarding the funds in which he or she wishes to invest.

From 1 December 2014, the default option comprises passively managed funds managed by LGIM (the "Default Portfolio"). Until 5 years before the member's designated retirement date, the Default Portfolio will be invested in a fund composed of a 60% holding in the LGIM World Equity Fund, a 20% holding in the LGIM All Stocks Gilts Index Fund and a 20% holding in the LGIM All Stocks Index-Linked Gilts Index Fund (the "Balanced Fund"). As the member approaches retirement, starting 5 years prior to his or her designated retirement date, the Trustee has directed its administrator to annually reduce the Balanced Fund allocation, and re-allocate assets gradually to the LGIM Sterling Cash

Fund (the "Cash Fund"), until at the designated retirement date, the investment will be 75% in the Balanced Fund and 25% in the Cash Fund. This enables members to use the Cash Fund for the provisions of a tax free lump sum at retirement with the remainder being invested for growth.

The Balanced Fund in the Default Fund Option will be switched into Balanced Hedged Fund as retirement date is approached to mitigate currency risk. This change does not meet any of the 'listed change' criteria. The Progression between the two funds is set out in the appendix.

The Trustee believes that a gradual partial allocation to the Cash Fund over a period of years approaching retirement is appropriate because the member is likely to wish to take some income in lump sum form at retirement. However, it is likely to be in the interests of most members to continue to invest the remainder of his or her fund for growth, even at retirement date, because members are likely to wish to take some form of income drawdown rather an annuity. Members will be reminded at least 7 years before their designated retirement date to consider switching from the Default Portfolio if they wish to purchase an annuity at retirement date and to reassess the suitability of the retirement date where appropriate. The assumed retirement date for members who do not choose a retirement date will remain their 65th birthday.

## Range of Funds

A list of the funds currently offered to members for investment of their Retirement Accounts appears in the Appendix.

Members may invest in any of the funds listed in the Appendix, or in a Pre-Select Portfolio consisting of an actively managed fund or blend of passive and active funds chosen by the Trustee. There are currently three Pre-Select Portfolio choices in addition to the Default Fund. When a member participates in a Pre-Select Portfolio, he or she must invest all of their account in that Pre-Select Portfolio.

## Environmental, Social and Governance (ESG)

The Trustee has considered its approach to ESG investments and does believe there can be financially material risks and opportunities relating to ESG. Reflecting this, the Trustee has delegated the ongoing monitoring and management of ESG considerations to the Plan's investment managers. The Trustee encourages the Plan's investment managers to take into account ESG considerations within their decision-making. The Trustees understand that MIO does not expressly take ESG issues into account as part of its investment considerations regarding the operation of COSS.

The Trustee will take the potential for ESG issues to lead to financially material risks and opportunities into account in any future investment manager selection exercises for the underlying investments that the Plan's makes. Further to this, the Trustee will where possible monitor the ESG integration practices of the managers they are invested in to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

The exercise of rights (including voting rights) attached to the Plan's investments is carried out by the investment managers.

The Trustee's policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

As the Plan invests in pooled funds, the Trustee acknowledges that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Plan’s investments to the Investment Managers.

The Trustee encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustee requires the Investment Managers to report on significant votes made.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee's expectation and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

Based on the structure set out in the Appendix, the Trustee considers the arrangements with the Investment Managers to be aligned with the Plan's overall strategic objectives. Details of each specific mandate are set out in guidelines, agreements and pooled fund documentation with each Investment Manager.

The amounts allocated to any individual category or security will be influenced by the overall benchmark and objectives, varied through the Investment Managers' tactical asset allocation preferences at any time, within any scope given to them through any asset allocation parameters or guidelines set by the Trustee or governing the pooled funds in which the Plan is invested.

The Trustee will ensure that the Plan's assets are predominantly invested in regulated markets to maximise their security.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Plan's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustee's expectations, including the selection / deselection criteria.

The Trustee encourages Investment Managers to make decisions in the long-term interests of the Plan, and are remunerated accordingly. The Trustee expects engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines provided.

This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns

As covered in more detail in this document, the Trustee also requires the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustee believes these factors could have a material financial impact in the long-term. The Trustee therefore make decisions about the retention and selection of Investment Managers, accordingly.

The Trustee receives regular performance monitoring reports from the Investment Consultant which consider performance over the quarter, one and three year periods. In addition, each Investment Manager will be assessed against any changes to the Trustee's selection and deselection criteria, which may lead to a change in the Investment Consultant's assessment against a particular mandate.

These assessments help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustee may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustee's meetings as requested.

The Investment Consultant has also carried out a review of how well the Trustee's guidelines in relation to ESG factors are incorporated into each Investment Manager's processes and the Trustee will re-assess progress on ESG issues periodically.

Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustee's policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.

## 4. Risk and Diversification

### Risk Management

The Trustee manages risk in a number of ways;

It ensures that members are offered access to a range of investment funds across different asset classes and markets. This allows members to select the level of risk versus return appropriate to a member's individual attitude to risk. It also enables members to diversify their investments. The Trustee believes that it is important that the risks associated with each investment fund are made as transparent as possible and this is done via web-based materials, which include the annual Investment Decision Guide and an annual investment seminar which all members are invited to attend. The Trustee believes that the greatest risk to members over the long-term is that the real purchasing power of pension assets will not be maintained. It recognises that passive fund options often offer real value for money and suit many members but it encourages members to diversify their investments. Members are encouraged to review their investment choices carefully as they approach retirement. The Default Portfolio provides a modified life-styling option. The Default Portfolio is not specifically designed for a member who wishes to purchase an annuity and so if they do they should consider an alternative strategy that would reduce the risk in his or her portfolio in the years leading to retirement.

The Investment Advisers, XPS and MIOEU, monitor fund performance and regularly review the funds on offer. XPS is primarily responsible for reviewing the passive funds and MIOEU reviews the active funds, which currently is COSS. XPS and MIOEU are invited to Trustee meetings to report on investment performance and advise on the continuing suitability of the range and type of investment funds offered to members.

MIO sets the benchmark and investment mandate (as detailed in a set of investment guidelines established by the Board of Directors of MIO) of the Fund at a level of risk that it deems appropriate for individual long term oriented investors. MIOEU reports regularly to the Trustee on the performance of COSS and MIO notifies the Trustee of any substantial changes in asset allocation or strategy.

LGIM and MIOEU are responsible for managing counterparty risk for the respective funds that they manage and do this by reviewing or monitoring counterparty arrangements of the underlying managers of the various funds.

Fraud and dishonesty risk is managed through restrictions on authority to transfer and deal with cash and transfers.

### Realisation of Investments

The passively managed investment choices, including the Default Portfolio, are highly liquid. However, COSS is less liquid. In difficult markets, where there is a cost to exit, that cost will be passed on to the exiting member and in extremely difficult conditions the member may be prevented from exiting in order to protect other investors. The Trustee believes the level of risk of non-liquidity in these funds is acceptable in an investment that is expected to be long term in nature so long as liquidity risks are adequately disclosed to members.

### Risk Measurement

The Trustee recognises that when investing in pooled funds the measurement of risk will pertain to the underlying levels of risk inherent in these funds. The Trustee will monitor the fund risk by reviewing on an on-going basis the historical fund statistics published by the Investment Managers and in the case of MIO through periodic reporting on risk management.

## 5. Pension Decumulation

### Use of member's retirement fund

The Trustee's policy is to ask the administrator to provide information regarding the member's options at retirement. A member's Retirement Account may be used to purchase an annuity or other pension product for the member at retirement, or at any later time when requested by the member. The choice of provider is determined by the member. The member will be informed of the availability of guidance under the Pension Wise Service as required by legislation. No independent financial advice is provided to members nearing retirement.

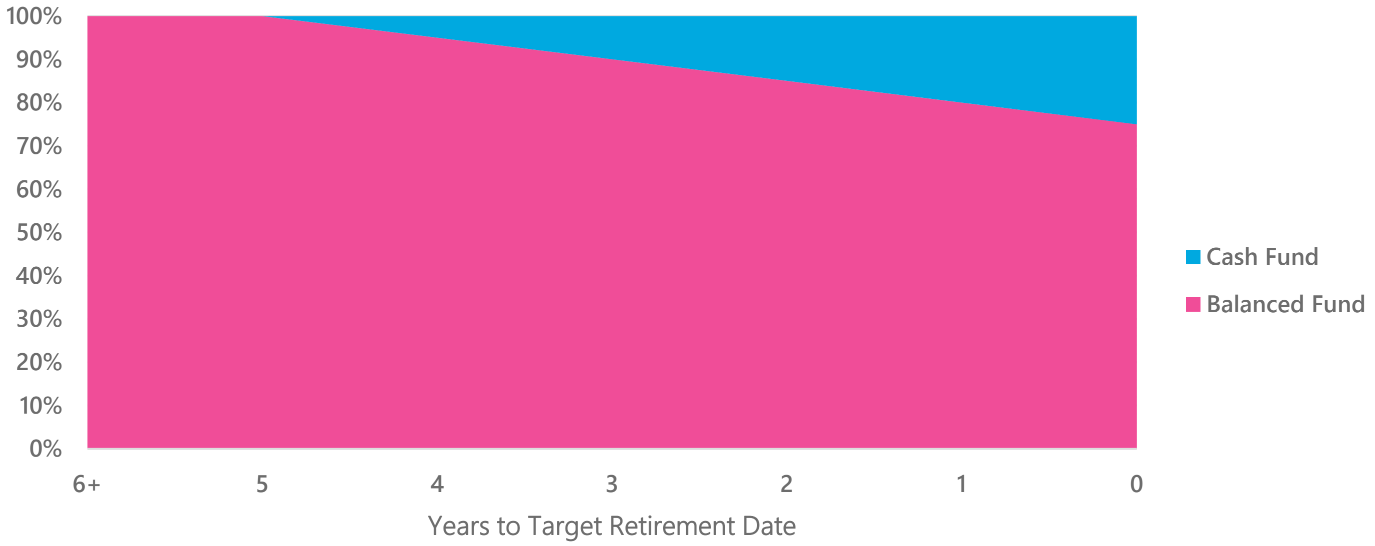
## 6. Adoption

Approved and adopted by the Trustee of the McKinsey & Company, Inc. UK Additional Plan on 25 September 2020.

# Appendix – DC Section Investment strategy

## Default Fund Option

The Default Fund Option of the DC Section of the Plan is summarised in the chart below.




Until 5 years before the member's designated retirement date, the Default portfolio will be invested in a Fund composed of a 60% holding in the LGIM World Equity Fund, a 20% holding in the LGIM All Stock Gilts Index Fund and a 20% holding in the LGIM All Stocks Index-Linked Gilts Index Fund (The 'Balanced Fund'). As the member approaches retirement, commencing 5 years prior to designated retirement date, the Trustee has directed its administrator to annually reduce the Balanced Fund allocation and re-allocated assets gradually to the LGIM Sterling Cash Fund (the 'Cash Fund') until the designated retirement date, the investment will be 75% in the Balanced Fund and 25% in the Cash Fund. This enables members to use the Cash Fund for the provision on a tax free lump sum at retirement, with the remainder being invested for growth.

Balanced Funds in the Default Fund Option will be switched into Balanced Hedged Fund as retirement date is approached to mitigate currency risk. This change does not meet any of the 'listed change' criteria. The Progression between the two funds is set out as below:

| Years to retirement | 5+ | 4 | 3 | 2 | 1 | 0 |
|---|---|---|---|---|---|---|
| Balanced Fund | 100% | 76% | 54% | 34% | 16% | 0% |
| Balanced Fund (hedged) | 0% | 19% | 36% | 51% | 64% | 75% |
| Equities hedged in balanced fund | 0% | 20% | 40% | 60% | 80% | 100% |
| Cash | 0 | 5% | 10% | 15% | 20% | 25% |

## Other Pre-Select Options

Further to the default offering, the Plan also allows for member investment in the following three additional Pre-select Funds, each with an individual asset allocation strategy as below:

| Fund | Allocation |
|---|---|
| Moderate Active Porffolio | Compass Offshore Special Situations PCC Limited (Sterling Class) - 70%, Index-Linked Gilts-15%, Cash-15% |
| Balanced Portfolio | World Equity – 60%, Index-Linked Gilts – 20%, Fixed Interest – 20% |
| Lifestyle Active Portfolio | Compass Offshore Special Situations PCC Limited (Sterling Class) -100%<br>**Last 7 Years pre-retirement**: Pre-retirement – 75%, Cash – 25% |

## Self-Select Funds

Individual members may elect to follow their own investment strategy by investing in a range of funds. The Trustee has made the following funds available to members:

| Asset class | Manager and fund | Benchmark/Objective |
|---|---|---|
| Passive Gilt Fund | LGIM All Stocks Gilt Index | Track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three. |
| Passive Index Linked Gilt Fund | LGIM All Stocks Index Linked Gilt Index | Track the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three. |
| Passive Equity Fund | LGIM Global Emerging Market Index | Track the performance of the S&P/IFCI Composite Global Emerging Markets Index (less withholding tax where applicable) to within +/-1.5% p.a. for two years out of three. |
| Multi-Asset Class Fund of Funds | Compass Offshore Special Situations PCC Limited (all class) | - Composed of an absolute return component and an asset allocation component, intended to achieve positive returns regardless of whether equity or debt markets perform strongly or poorly.<br>-The COSS is offered to members through the pre-select portfolios. |
| Cash Fund | LGIM Sterling Cash | The fund aims to perform in line with 7 Day GBP LIBID, without incurring excessive risk. |
| Passive Investment Grade Credit Fund | LGIM Pre Retirement | -The benchmark asset allocation for the Fund is a composite of gilts and corporate bond fund,<br>-The Fund's benchmark is kept broadly in line with the current pension annuity market investments for non-LPI linked annuities |
| Passive Equity Fund | LGIM UK Equity Index | Track the performance of the FTSE All-Share Index (less withholding tax where applicable) to within +/-0.25% p.a. for two years out of three. |

| | | |
|---|---|---|
| **Passive Equity Fund** | LGIM World Equity Index | Track the performance of the FTSE World Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three. |
| **Passive Multi-Asset Fund** | LGIM Balanced Fund | Composed of 60% LGIM World Equity Index Fund, 20% LGIM All-Stocks Index-Linked Gilts Fund and 20% LGIM All Stocks Index Linked Gilts Index Fund |
| **Passive Equity Fund** | LGIM HSBC Amanah Global Equity Index Fund | The Dow Jones Islamic market Titans 100 index. The fund will invest in equity securities, which meet Islamic investment principles, of companies in the index. |
| **Passive Multi-Asset Fund** | LGIM Balanced Hedged Fund | Balanced Fund with Currency Hedging. |