VIR number:

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The team at Virgin Money
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Hello

GOOD NEWS – WE'RE IMPROVING OUR DEFENSIVE FUND

We're always looking for better ways to invest your money, which is why on or around **1 September 2023**, we'll be making some changes to our Defensive Fund. That's one you're currently investing in via your Virgin Money Pension. If you're in our Glidepath and over 51, part of your pension will be in our Defensive Fund.

Our funds are being updated to make them better for people and the planet, and to increase their potential returns. Growth Funds 1, 2 and 3 have already been updated, and the Defensive Fund is next. The main objective of the fund stays the same – to grow your money over the medium term (three years or more), while limiting ups and downs in value, by investing mainly in assets considered to be lower risk or 'defensive' in nature.

What do you need to know?

Our Defensive Fund is an example of what's known as a 'fund-of-funds' – an investment fund that invests in other funds, rather than directly in bonds and shares. From the date above, we'll pick funds that are a bit more choosy about how they invest. We're confident this is a good way to give you a better balance of risk and return in the future.

We're replacing most of the underlying funds based on the new criteria shown below. Just so you know, our Defensive Fund will continue to invest in things like government bonds, corporate bonds and shares.

Here's how it will work:

- **ESG considerations** – we'll invest in funds which include Environmental, Social and Governance (ESG) factors. So rather than investing in all companies in a particular market, ESG factors will be considered to adjust how much the funds invest in each company, if at all. Most of these will be index-tracking funds like they are today, but the index they track will use ESG considerations.

BUILDING A BRIGHTER FUTURE

We believe that the way we invest can be beneficial not just to the performance of a fund, but to the planet and its people too. That's why we're actively picking funds which care about the effects of how and where they're invested.

We're taking care of everything, so you don't need to do a thing. If you want to know more, check out the enclosed info – including the new ESG factors and exclusions section in your fund's Investment Policy.

- **Reduce/exclude investments in specific areas** – we're aiming to avoid, or greatly reduce, investing in companies involved in certain activities, such as tobacco and coal. We'll also exclude, where possible, companies that fail UN principles on good behaviour. This will be done by choosing funds with these exclusions. We've set a limit of 0.5% of the value of the fund for these activities.

These changes will be made where we can and where we believe it'll add value. They'll happen across most share and corporate bond markets that the fund invests in, but won't apply to investments which aren't in companies, such as cash and government bonds.

Why the changes?

We believe that looking at how companies operate and their impact on the environment and society will lead to better outcomes for you, people and the planet. We'll continue to invest in a wide range of companies to make sure the risk is spread, but will now look at any ESG risks and harmful activities too.

Are there any risks?

With any change in investment strategy, there's no guarantee it'll lead to better returns. It may even lead to lower returns compared to leaving our fund unchanged.

What about costs?

There'll be some transaction costs to make these changes. We'll be selling most of the underlying funds to buy new ones, although we don't expect the costs to be more than 0.4% of the fund's value. So, if you had £10,000 in our fund, the impact would be £40 or less. This will happen behind the scenes and will reduce the unit price slightly (and therefore the value of your investment) when it happens.

Over the medium term, we believe the additional potential returns should more than make up for the cost of making these changes.

What if you don't like the changes?

We're making these changes because we believe this is a better way of investing for people, the planet and performance potential of the fund – but we're giving you plenty of notice in case you decide they're not for you.

If you aren't happy with the changes, you can switch to our other funds at no cost. If you've chosen Glidepath then changing funds will also switch off Glidepath. Remember, we've been making similar changes to our other funds, so if these changes aren't right for you, you can choose to transfer your money to another provider. We won't charge you anything to leave but will be sorry to see you go.

Any questions?

We can't give you advice, but can answer lots of other questions. Just give us a call on **03456 10 20 30** or **00 44 1268 443956** from abroad. We're here 8am to 9pm Monday to Friday and 9am to 6pm on Saturdays. We'll do everything we can to help.

If you want an up-to-date valuation at any time, simply sign in to Online Service or call our automated valuation line on **0800 917 9791.**

The team at Virgin Money

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Investment Policy addition

MONEY

The Virgin Money Pension Defensive Fund is a pension 'feeder' fund that invests fully in an underlying fund – the Virgin Money Defensive Fund.

The following wording is being added to the Investment Policy of the Virgin Money Defensive Fund. Just so you know, there are no other changes. We will make these changes on or around 1 September 2023.

One way in which the Fund seeks to manage risks and opportunities is via Environmental, Social and Governance (ESG) considerations. Where the Investment Adviser feels it is beneficial from a risk or return perspective, and suitable investment options are available, underlying investment funds will be chosen because of their:

- integration of ESG considerations into stock selection (increasing / decreasing allocation to individual companies based on the ESG scoring process of the index provider / fund manager),
- adoption of sustainable investing objectives or policies,
- positive shareholder engagement policies, and / or
- investment in companies providing products and services that support the transition to a low carbon economy.

The Fund will limit (to no more than 0.5% of the value of the Fund's assets) indirect exposure to companies which:

- make more than 5% of their earnings from tobacco products, thermal coal or unconventional oil and gas (such as oil sands or shale gas),
- are involved in the manufacture of controversial weapons such as cluster munitions or anti-personnel landmines,
- or who violate the UN Global Compact principles on human rights, labour, the environment and anti-corruption.

If the Investment Adviser determines that the allocation to the above type of companies is above 0.5% of the value of the Fund's assets, they will reduce exposure to below 0.5%. They will do this by selling the underlying funds identified as contributing to the over-exposure, usually within two months.

We expect the Fund to have a better ESG rating (based on the analysis and scoring system of one or more market leading data providers) and lower carbon emissions compared to investing in the same mix of assets using a standard indexing approach without ESG consideration. This will be reported in the annual value statement when reviewing the non-financial performance of the Fund.

What does ESG mean?

"Environmental, Social and Governance" (ESG) is the term used for a set of factors to consider when deciding whether to invest in a company. They're important, as they represent risks and opportunities in how that company provides its products and services. There is a growing expectation that companies need to consider their impact on people and the planet.

- **Environmental** – Issues such as carbon emissions, natural resource usage, pollution and waste management and biodiversity.
- **Social** – Examples include human and labour rights, diversity and inclusion, inequality and customer relations.
- **Governance** – This covers things like corporate governance, risk management, tax transparency and anti-corruption.

What does this mean for our fund?

We'll use ESG considerations below to help us decide which funds to select:

We will invest more in companies that are managing risks well and are putting themselves in a good position for the future in the part of the economy they support. At the same time, we won't invest (or we'll greatly reduce our investment) in companies if we believe they're not managing their risks appropriately.

We won't invest (or we'll greatly reduce our investment) in companies that support things we don't think have a place in the future – like digging up coal for burning in power stations.

How will adding ESG considerations work?

The following example should give you an idea of how our investment in a range of companies would be impacted by the changes.

- We currently invest in funds that track the FTSE All Share Index, as well as other markets. If there are just three healthcare companies in this index – making up 1%, 2% and 5% of the index – a standard tracker fund, like the funds the Defensive Fund invests in now, will invest 1%, 2% and 5%.
- We swap this standard FTSE All Share tracker fund for a fund that tracks a UK equity index with ESG factors integrated into it. Based on the research and insight of the index provider, they might decide that:
  - healthcare company A has relatively poor environmental practices and are at increased risk of fines in the future.
  - company B has sensible plans to reduce carbon emissions.
  - company C is under increasing pressure with labour conditions for some offshore manufacturing.

  So, they adjust the index weight from 1%, 2% and 5% to 0%, 4% and 4%. Exposure to the healthcare sector remains at 8%, but company level exposure has been tilted towards the company with better ESG credentials.
- The index will make similar assessments across the other sectors in the UK equity market. This'll mean a UK equity fund (tracking this new index) which is still well diversified, has exposure to all major sectors – apart from a few specific exclusions – and invests across lots of companies (but not as many as the standard index). The expected outcome is a fund that's better positioned for the future (in terms of reduced exposure to potential risks which may negatively impact share prices) and will hopefully perform better in the long run compared to the standard tracker fund.
- We won't be able to do this across all markets – sometimes, there aren't the right funds to invest in – but we will where we can and where we believe it'll add value.

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