Thomas Dudley Group Limited Pension and Life Assurance Scheme - Statement of Investment Principles

This Statement is issued by the Trustees of the Thomas Dudley Group Limited Pension and Life Assurance Scheme to comply with:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

The Scheme is a final salary (defined benefit) Scheme whose assets are invested to service the Scheme liabilities, provide cover for the expected growth of its liabilities and to generate sufficient short term liquidity to reflect the cash requirements associated with the Scheme. Subject to these general considerations, the policy of the Trustees in relation to investment issues is as follows:

Investment Managers

The Trustees have appointed Investment Managers, who are responsible for the management of the majority of the Scheme's assets. These managers may change from time to time, depending upon performance.

Advisers

The Actuary to the Scheme is Rachel Hunt of Mercer. The Investment Consultant is Barnett Waddingham LLP. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

Investment Objective

The main investment objective of the Trustees is to hold a portfolio of assets that seeks to broadly hedge movements in the Scheme's liabilities, while also maintaining a minority allocation to a diversified growth portfolio that aims to generate returns in excess of the risk-free rate, as agreed periodically with the Investment Managers.

Risk

The value of the assets held in the Scheme can go down as well as up. The assets are selected for long-term investment returns, having regard to the liabilities of the Scheme. Death-in-service benefits are covered by an insurance policy. The risk that the assets mismatch the liabilities is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

The Trustees also consider both governance and ESG/climate risk.

In this context, governance risk relates to the fact that each investment manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.

ESG/Climate risk relates to the fact that the Trustees have considered long-term financial risks to the Scheme and deem ESG factors, as well as climate risk, to be potentially financially material and the Trustees will continue to develop their policy to consider these, alongside other factors, when selecting or reviewing the Scheme's investments in order to avoid unexpected losses.

Investment Balance

The Investment Managers have discretion to invest in listed equities, both UK and overseas; managed & sector funds; OEICs and investment trusts; fixed interest stock; gilts; hedge funds; structured products including Liability Driven Investment funds; cash. The Investment Managers are responsible for maintaining a portfolio that is commensurate with the Investment Objective.

The liabilities of the Scheme are by nature long term. The investment focus of the Scheme is also long term. The growth of the Scheme's liabilities is linked to inflation, salary increases and life expectancy. The Trustees expect as a minimum that, over time, the investment returns to the Scheme will be more than sufficient to meet the growth in its liabilities and considers that greater long-term returns will be generated by a focus on investment in equities. The Trustees' view is that equities will in the long run outperform fixed interest securities, but are aware that the liabilities are valued with respect to yields on fixed interest securities, specifically UK government bonds.

The Trustees recognise that the asset allocation of investments in different asset classes will vary over time as a result of market movements. Rebalancing of the assets may take place if the Trustees deem it appropriate to do so. Disinvestments for cashflow purposes are typically made from the Quilter portfolio. The Trustees maintain a cash balance to meet short-term needs.

The Trustees have also bought annuity policies to meet income needs for some retired members.

Investment Guidelines

The Trustees agreement with the Investment Managers contains Investment Guidelines and further details on the Investment Objective and Investment Benchmarks. The Guidelines are drafted to ensure diversification of risk between asset classes, countries, sectors and companies, taking account of the liquidity needs of the Scheme.

The Trustees of the Scheme do not determine the specific investments that the Scheme holds, the underlying investments are selected by professional investment managers.

The Trustees' policy on financially and non-financially material considerations when selecting investments as well as voting rights is summarised in the Appendix.

Scheme beneficiaries are not consulted on either investment manager selection or underlying investments.

Review of Performance and Investments

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using the chosen Investment Managers, the Trustees policy is to monitor funding, investment performance, risk against liabilities and risk against benchmarks periodically. The Trustees may ask for reports on other matters they deem relevant. The Trustees review performance of the Scheme's investments regularly against the Technical Provisions, the agreed investment objective, and the Scheme Benchmark. The Trustees also review the performance of the Managers regularly, as required.

Compliance Monitoring
The Trustees look to the Investment Manager for periodic confirmation that it has complied with applicable regulations.

Custody
The Investment Managers appoint Independent Custodians to hold all securities owned by the Scheme through their pooled investments and segregated mandates.

Employer-Related Investments
There are no employer-related investments.

Remuneration of Managers and Consultants
The Investment Managers and Investment Consultant are remunerated by the Scheme on a fee basis. The Actuary is remunerated by the employer on a fee basis. The Trustees consider that these arrangements provide them with cost-effective access to the services and advice they need.

Delegation of Authority to the Manager
The Trustees delegate to the Investment Managers authority to make day to day investment decisions, including property transactions and realisation of investments. Further detail is summarised below.

Financially Material Considerations, Non-financially Material Considerations, the Exercise of Voting Rights and Engagement Activities
The Trustees have set policies in relation to these matters. These policies are set out in the Appendix.

Policy on Arrangements with Investment Managers

<u>Incentivising alignment with the Trustees' investment polices</u>

Prior to appointing an investment manager, the Trustees may, where relevant, discuss the investment manager's approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how their policies are aligned with the Trustees' own investment beliefs.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustees may also consider how ESG and climate risk are integrated into these. If the Trustees deem any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider using another manager for the mandate.

The Trustees carry out a strategy review on a regular basis where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustees monitor the investment managers' approach to ESG and climate related risks on a regular basis, as required.

In the event that an investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, their appointment may be terminated.

Investment manager ESG policies may be reviewed in the context of best industry practice and feedback will be provided to the investment manager, if relevant.

Incentivising assessments based on medium to long term, financial and non-financial considerations

The Trustees are mindful that the impact of ESG and climate change has a long-term nature. However, the Trustees recognise that the potential for change in value as a result of ESG and climate risk may occur over a much shorter term than climate change itself. The Trustees may acknowledge this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over a rolling timeframe. The Trustees believe the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. In the case of assets that are actively managed, the Trustees expect this longer term performance target to be sufficient to ensure an appropriate alignment of interests.

The Trustees expect investment managers to be voting and engaging on behalf of the Scheme's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustees do not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short term targets, where these considerations may be financially material in the long term.

Method and time horizon for assessing performance

The Trustees monitor the performance of their investment managers over medium to long term periods that are consistent with the Trustees' investment aims, beliefs and constraints.

The Scheme invests in a mixture of segregated and pooled arrangements. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

The Trustees believe that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustees ask the Scheme's investment consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered regularly as part of the review of the Statement of Investment Principles.

Portfolio turnover costs

The Trustees acknowledge that portfolio turnover costs can impact on the performance of their investments. Overall performance may be assessed as part of the half-yearly investment monitoring process.

During the investment manager appointment process, the Trustees may consider both past and anticipated portfolio turnover levels. When underperformance is identified, deviations from the expected level of turnover may be investigated with the investment manager concerned if it is felt they may have been a significant contributor to the underperformance. Assessments reflect the market conditions and peer group practices.

Duration of arrangement with asset manager

For the open-ended arrangements in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' investment beliefs is assessed broadly every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

Changes to the Statement of Investment Principles

The Trustees will review this Statement of Investment Principles at least every three years, and immediately following any significant change in investment policy. The Trustees will take investment advice, actuarial advice, and consult with the Scheme's sponsor over any changes to the Statement of Investment Principles.

Agreement

This statement was agreed by the Trustees, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the Principal Employer, the investment managers, the Scheme Actuary and the Scheme auditor upon request. The Statement will also be published on a publically accessible website.

For and on behalf of the Trustees

Date agreed: September 2024

Appendix: Financially material considerations, non-financially material considerations, the exercise of voting rights and engagement activities

Financially Material Considerations

The Trustees consider that factors such as environmental, social and governance (ESG) issues (including but not limited to climate change) will be financially material for the Scheme over the length of time during which the benefits provided by the Scheme for members require to be funded to a level which would allow the benefits to be bought out with an insurer. This is likely to be greater than ten years from the date of this Statement of Investment Principles.

The Trustees have elected to invest some of the Scheme's assets through segregated and pooled arrangements. The choice of underlying funds is made by the Trustees after taking advice from their investment consultant. The Trustees, and the managers of the underlying funds, take into account ESG factors (including climate change risks) in their decisions in relation to the selection, retention and realisation of investments.

The Trustees take those factors into account in the selection, retention and realisation of investments as follows:

Selection of investments: Assess the investment managers' ESG integration credentials and capabilities, including stewardship, alongside other financially material factors.

Retention of investments: Develop a robust monitoring process which will consider ESG factors alongside other financially material factors, on an ongoing basis.

Realisation of investments: The Trustees may request information from investment managers about how ESG considerations are taken into account in decisions to realise investments, if it is deemed to be financially material.

The Trustees will also take those factors into account as part of its investment process to determine a strategic asset allocation, and consider them as part of ongoing reviews of the Scheme's investments.

The Trustees will continue to monitor and assess ESG factors, and risks and opportunities arising from them, as follows:

- The Trustees may obtain training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;

- As part of ongoing monitoring of the Scheme's investment managers, the Trustees may use any ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and

- Through their investment consultant the Trustees may request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.

Non-financially Material Considerations
The Trustees do not take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future qualify of life of the members and beneficiaries of the Scheme (referred to as "non-financial matters" in the relevant Regulations) in the selection, retention and realisation of investments.

The Exercise of Voting Rights
The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

The Trustees may, where relevant, monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustees will engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Engagement Activities
The Trustees acknowledge the importance of ESG and climate risk within their investment framework. When delegating investment decision making to their investment managers they provide their investment managers with a benchmark they expect the investment managers to either follow or outperform. The investment manager has discretion over where in an investee company's capital structure it invests (subject to the restrictions of the mandate), whether directly or as an asset within a pooled fund.

The Trustees are of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities, i.e. that they apply to equity, credit and property instruments or holdings. The Trustees also recognise that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustees consider it to be a part of their investment managers' roles to assess and monitor developments in the capital structure for each of the companies in which the managers invest on behalf of the Scheme or as part of the pooled fund or segregated arrangements in which the Scheme has holdings.

The Trustees also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme.

Should an investment manager be failing in these respects, this should be captured in the Scheme's regular performance monitoring.

The Scheme's investment managers are granted full discretion over whether or not to invest in the Principal Employer's business. Through their consultation with the Principal Employer when setting this Statement of Investment Principles, the Trustees have made the Principal Employer aware of their policy on ESG and climate related risks, how they intend to manage them and the importance that the pensions industry as a whole, and its regulators, place on them.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustees confident that the investment manager recommendations they make are free from conflict of interest.

The Trustees expect all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustees believe they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustees/investment manager and the investee companies.

In selecting and reviewing their investment managers, where appropriate, the Trustees will consider investment managers' policies on engagement and how these policies have been implemented.

Appendix: The balance between different kinds of investment

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return on the various asset classes and the need for diversification.

The split between the LDI portfolio and the remainder of the Scheme's assets is not fixed and is driven by the level of assets required to achieve the required level of hedging. Additionally, the split between return seeking and hedging assets is not fixed as assets invested in Absolute Return Bonds and Liquidity will change over time depending on collateral events.

The table below sets out the strategic asset allocation at 30 June 2024:

Portfolio	Asset class	Asset Allocation at 30 June 2024
Hedging portfolio	Leveraged LDI	20%
	Single stock gilts	20%
	Buy and Maintain Credit	35%
Absolute Return	Absolute Return Bonds	7%
Cash	Liquidity	5%
Return-seeking	Property	5%
	Equities	8%
Total		**100%**