Statement of Investment Principles for the Norcros Security Plan

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Norcros Group (Trustee) Limited ("the Trustee") on various matters governing decisions about the investments of the Norcros Security Plan (the "Plan"). The Trustee acts as trustee of the Plan, a pension scheme with Defined Benefit ("DB") and Defined Contribution ("DC") sections. This SIP replaces the previous SIP agreed by the Trustee in August 2023.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended), the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Pension Regulator's guidance for defined benefit pension schemes (as amended) and the Pension Regulator's guidance for defined contribution pension schemes (as amended).

This SIP has been prepared after obtaining and considering written professional advice from Lane Clark and Peacock LLP, the Plan's investment adviser in respect of the DB Section, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers 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 relevant employer in producing this SIP. The Trustee has also received input from the Plan's legal adviser (Pinsent Masons) and DC investment adviser (Mercer) in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy or in the demographic profile of the relevant members in respect of the DC Section and at least once every three years.

- **Appendix 1** sets out details of the Plan's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.

Details of the investment manager arrangements are set out in a separate Investment Policy Implementation Document, that does not form part of this SIP.

2. Investment objectives

The Trustee has a number of investment objectives which it uses to set its investment strategy. These objectives are reviewed on a regular basis.

The primary objective for the DB Section is to ensure that the Plan should be able to meet benefit payments as they fall due. In addition to this primary objective, the Trustee has additional objectives. These are as follows:

- The expected return on the Plan's assets is maximised whilst managing and maintaining investment risk at an appropriate level. The Trustee's approach towards determining an appropriate level of risk is set out in Appendix 2.
- The Plan should be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis). The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Plan.

The Trustee's primary objective for the DC Section is to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement; and
- 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 overall objective of the default option is to generate returns above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the employer has agreed investment strategies for the DB and DC Sections, considering the objectives described in Section 2 above.

3.1. DB Investment strategy

The Trustee, with the help of its investment adviser, has agreed that the investment strategy of the Plan should be based on the asset allocation below.

Asset class	Strategic allocation
UK equities	0%* (12% exposure)
Global equities	11%
High yield debt	5%
Private credit	10%
Corporate bonds	7%
Asset backed securities	15%
Short-duration credit	22%
Bespoke credit-linked LDI	30%
Total	**100%**

* UK equities will be accessed synthetically within the Bespoke credit-linked LDI Fund, with a target exposure of 12% of total Plan assets.

Dependent on market conditions and the level of investment return required to achieve the Trustee's objectives, the Trustee may implement equity protection strategies. Such strategies will be implemented within the Credit-Linked Bespoke LDI Fund, and will be designed to limit potential losses that could occur as a result of a fall in equity markets. The cost of such protection could be paid directly out of the Plan's assets, or alternatively funded through "selling" part of the potential upside associated with the Plan's equity allocation (also known as a collar strategy).

The Trustee's rebalancing policy is set out in a separate implementation document. The Trustee monitors the asset allocation from time to time. If material deviations from the strategic allocation occur the Trustee will consider with its advisers whether it is appropriate to rebalance the assets, considering factors such as market conditions and anticipated future cash flows.

The Trustee has a leverage management plan in place, which sets out the assets directly available to support the Plan's LDI arrangements and the approach to be taken with regards to selling down any other assets to support the LDI arrangement.

3.2. DC investment arrangements

For the DC Section, the Trustee has made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved.

If a member does not choose an investment option, their account will be invested into the default option, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age).

The default option is designed to be in the best interests of the majority of the members based on the demographics of the Plan's membership. The default option targets income drawdown at retirement, since the Trustee believes that most members will wish to take their benefits in this form. Therefore, in the initial growth phase the default option is invested to target a return above inflation, and then in the 7 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members looking to use their savings flexibly through income drawdown.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice. The Trustee reviews the default option on a triennial basis, and in the event of a significant change in the investment policy or demographic profile of the relevant members.

3.3. DC default investment option – policy on illiquid assets

The Trustee considers illiquid assets to be assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund.

The Plan's default investment option does not include any direct allocation to illiquid investments. The Plan has indirect exposure to illiquid assets within the default option through

its investment in a multi-asset pooled fund, where the investment manager has the discretion to include modest allocations to less liquid assets in their strategy. At the total default strategy level, this is not expected to be more than 6% at any point of the lifestyle strategy and relates primarily to physical property assets (again, held within a multi-asset daily dealt fund) used during the growth phase of the strategy. The growth phase is in place until members are seven years from retirement.

The Trustee is comfortable indirectly investing in a small proportion of the default investment option's assets in illiquid assets, to gain access to the potential for higher returns and the benefits of diversification that such assets can offer. While these benefits are recognised, the Trustee is also aware of the risks of investment in illiquid assets. Given the potential for valuations of illiquid assets to not reflect their true value at a given time as well as liquidity constraints and investment platform compatibility, the Trustee considers direct investment into an illiquid asset fund, such as a Long Term Asset Fund ("LTAF"), as not currently appropriate, although this is kept under review.

In selecting investments for the default option the Trustee carefully considers whether they provide value for members, taking account of the return potential and associated risks. The illiquid assets policy will be reviewed at least triennially.

4. Considerations in setting the investment arrangements

When deciding how to invest the Plan's assets, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to make reasonable allowance for the relative importance and magnitude of each risk.

In setting the strategy for the DB Section, the Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 3.0% pa. The other key assumptions for expected returns above gilts are as follows (as at 30 September 2024):

- High yield: 2.1% pa
- Short duration credit: 1.3% pa
- Private credit: 3.2% pa
- UK investment grade corporate bonds: 0.9% pa
- AA rated (average) asset-backed securities: 1.1% pa
- A rated (average) asset-backed securities: 1.3% pa
- BBB rated (average) asset-backed securities: 2.1% pa
- Dynamically managed credit-linked LDI: 1.4% pa

In setting the strategy for the DB Section the Trustee also considered:

- 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 best interests of all members and beneficiaries;
- 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;
- 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;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Plan;
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes; and
- any other factors the Trustee believes to be financially material over the applicable time horizons relevant to the funding of the benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

In determining the investment arrangements for the DC Section the Trustee considered:

- the best interests of all members and beneficiaries;
- the demographic 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 whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the default strategy to ensure that 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;
- any other considerations which the Trustee considers financially material over the periods until members' retirement, or any other timeframe which the Trustee believes to be appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

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;
- risk-taking is necessary to achieve return, and whilst some risks have an associated "reward", not all risks are rewarded. In considering a risk, it is also necessary to consider the associated reward;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that cannot be avoided and do not have an expected reward (eg interest rates, inflation and currency) should generally be mitigated as appropriate (eg hedged or diversified);
- investment markets are not always efficient and there may be opportunities for good active managers to add value (eg within multi-asset and equity funds);
- cashflow management is an important consideration given the maturity of the Plan;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore seeking to obtain value for money from the investments is important.

The Trustee has also set specific beliefs in relation to climage change risks and opportunities, which are as follows:

- climate change represents a source of material financial risk and an appropriate assessment of them within the investment strategy is likely to lead to improved outcomes for the Plan's members over the long term;
- climate-related factors should be integrated, at least at a high level, with other risks and opportunities in the investment managers' investment processes and decisions;
- climate change is a systemic risk and one that will impact all aspects of the economy over the long term.

The Trustee's key investment beliefs and understanding of the Plan's membership are reflected in the design of the default and other lifestyle options, and in the range of other funds made available to members in the DC Section.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to all relevant considerations. These considerations include the need to ensure (in line with the Trustee's strategic considerations, its approach to risk tolerances and the requirements of section 36 of the Pensions Act 1995):

- the security, quality, liquidity and profitability of the portfolio as a whole;

- that assets are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Plan;
- that the assets of the Plan consist predominantly of investments admitted to trading on regulated markets (and any investment outside regulated markets is kept to a prudent level);
- that assets are properly diversified to avoid excessive risk concentration or reliance on a particular asset or issuer;
- any investments via derivatives are used to contribute to a reduction of risk, facilitate efficient portfolio management and/or are made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations; and
- that assets must be invested in the best interests of members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of members and beneficiaries.

The Trustee relies on its investment adviser to provide ongoing advice in respect of its investments (including the retention of existing investments) at appropriate intervals, given the circumstances, to ensure that they continue to be satisfactory.

The Trustee has signed agreements with the investment managers setting out the terms on which the portfolios are to be managed. Details of the investment managers are set out in the separate Investment Policy Implementation Document.

In respect of the DC Section, the Trustee has entered into a contract with a platform provider, who makes available the range of investment options to members.

The Trustee has signed agreements with the investment managers, and the platform provider in respect of the DC Section, setting out in detail the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Plan's investments.

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

The Trustee has limited influence over managers' investment practices because the majority of the Plan's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate (and meet with the managers on a regular basis to seek to ensure this remains the case).

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 their 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 (including in relation to ESG) before any new appointment, and to monitor and if appropriate 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 available performance data over both shorter and longer-term periods. 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 (on a quarterly basis) relative to its stated objectives as well as the role it plays in helping the Plan meet its overall long-term objectives, taking account of the Trustee's assessment 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 the Plan's investment mandates.

The Trustee and its investment adviser consider the key drivers for each manager's investment performance on a quarterly basis. Portfolio turnover is expected to be higher in some funds (eg multi-asset) relative to others. However, these funds typically invest in highly liquid instruments to ensure transaction costs are managed appropriately.

6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Plan within the portfolios that they manage, and in considerations relating to the liquidity of investments.

For the DB Section, when appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustee's preference is for investments that are readily realisable but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, the Trustee's policy is to use income from its credit and equity portfolios to meet benefit payments, with net cash flow requirements used to rebalance the Plan's assets towards the strategic asset allocation.

For the DC Section, the Trustee's policy is to enable members to invest in funds that offer daily dealing so that were appropriate members may readily realise and change their investments.

7. Financially material considerations and non-financial matters

The Trustee has considered how the financial impact of environmental, social, governance ("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 are able to demonstrate that they 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. This is considered in the form of written reports and presentations from the investment managers.

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.

The Trustee does not take into account 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.

8. Voting and engagement

The Trustee recognises its responsibilities as a fiduciary 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 exercising of rights attached 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, considering the long-term financial interests of the beneficiaries.

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.

The Trustee has selected climate change as its priority theme to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee will review this regularly and update its priority if appropriate.

The Trustee chose this priority because it is a market-wide risk that is financially material for the Plan's investments and can be addressed by good stewardship. Therefore, the Trustee believes it is in its members' best interests that managers adopt strong practices in this area.

The Trustee will write to its investment managers regularly to notify them of its stewardship priorities and remind the managers of its expectations in relation to responsible investmet, i.e. ESG considerations, climate change, voting and engagement.

9. Self-investment

It is the Trustee's policy that the Plan's assets will not be directly invested in any "employer-related investments" (as defined in the Order and the Regulations) including any shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer.

Where the Plan's assets are invested in pooled investment vehicles, which may hold employer-related investments as part of their investment strategy, the Trustee will seek to require the investment managers of such pooled vehicles to notify promptly the Trustee of any investment by such pooled vehicles in employer-related investments. This is so that the Trustee can ensure that employer-related investments (including those held through such pooled vehicles and attributable to the Plan under the Order and the Regulations) do not in aggregate exceed the statutory limit of 5% of the Plan's assets.

Where the manager of a pooled vehicle is unable to provide such notification to the Trustee due to the nature of the pooled vehicle (eg fund of funds) or other considerations, the Trustee (with the help of their advisers) will make necessary assumptions and calculations to ensure that their investment in such pooled vehicles does not cause the overall exposure to employer-related investments to exceed the statutory 5% threshold.

SIP signed for and on behalf of the Trustee of the Plan:

Signed: ____

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Plan. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Plan overall. The Trustee's investment powers are set out within the Plan's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer and with regard to appropriate advice from its investment advisers;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial factors when making investment decisions;
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking appropriate engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- exercising discretion to determine an appropriate course of action for any redirected contributions within the DC Section (eg in response to fund closures).
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuarial and other service providers;
- monitoring the exercise of the investment powers that it has delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

2. Platform provider

The investment platform provider (in respect of the DC Section) will be responsible for:

- providing access to a range of funds; and
- providing the Trustee with regular information concerning the management and performance of the assets.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments, in accordance with any stated policies or guidelines set out in their respective agreements and/or other relevant governing documentation;
- providing the Trustee (and where relevant, the platform provider) with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

4. Custodians

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

5. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee. The various specific responsibilities of the investment adviser to advise the Trustee are set out in this SIP and not repeated below, but in general terms the investment adviser is responsible for:

- for the DB Section, advising on formulating its investment strategy for the Plan, helping the Trustee to keep the strategy under review and assessing the Plan's performance against the strategy. Also advising on the implementation of the strategy and helping the Trustee with tactical measures taken in pursuit of strategic objectives;
- for the DB Section, advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- for the DB Section, advising on and monitoring liability hedging and collateral management;

- for the DC Section, advising on a suitable fund range and default strategy for the Plan, and how material changes to legislation or within the Plan's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations) and providing appropriate advice to the Trustee regarding the suitability of new investments and/or the retention of existing investments in compliance with the applicable laws; and
- participating with the Trustee in reviews of this SIP.

The Trustee periodically assesses the performance of the investment adviser, using pre-determined criteria.

6. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets.

The Trustee has agreed Terms of Business with the Plan's investment adviser, under which work undertaken is charged for by either an agreed fixed fee or on a "time-cost" basis.

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Plan. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

7. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

8. Working with the Plan's employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement

to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk, risk measurement and risk management

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Plan in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired.

The Trustee aims is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- any agreed journey plan and any employer contributions;
- the Plan's long-term and shorter-term funding targets;
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged; and
- the Plan's cash flow and target return requirements; and
- the level of expected return and level of risk, now and as the strategy evolves.

When deciding on the current investment strategy, the Trustee took into account the appropriate level of risk given the Trustee's and employer's risk appetite and capacity, given the Plan's objectives.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

For the DB Section, a key objective of the Trustee is that, over the long-term, the Plan should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Plan to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Plan's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustee on a regular basis.

For the DC Section, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the default option a lifestyle strategy.

2.2. Risk from unsuitable investments

The Trustee has considered the kinds of investments that are suitable for the DB Section and the kinds of investments that are unsuitable. It is the Trustee's policy that assets in the DB Section will not be directly invested in any "employer-related investments" (as defined in the Order and the Regulations) including any shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer.

Where the Plan's assets are invested in pooled investment vehicles the approach described in Section 9 of this SIP will apply.

2.3. Credit risk

This is the risk that a borrower will cause a financial loss for the other party by failing to meet required payments for a contractual obligation.

The Plan is subject to credit risk because it invests in bonds and derivative contracts through segregated, bespoke and pooled fund structures.

The Trustee manages its exposure to credit risk by investing in funds that have a diversified exposure to different credit issuers and / or where coupon payments are derived / supported by an underlying asset to protect against borrower default.

2.4. Equity risk

Equity represents (part) ownership of a company. Equity risk is the risk that the value of these holding falls in value.

The Trustee believes that equity risk is a rewarded investment risk, over the long term. The Trustee considers exposure to equity risk in the context of the Plan's overall investment strategy and believes that the level of exposure to this risk is appropriate.

2.5. Currency risk

Whilst the majority of the currency exposure of the Plan's assets is to Sterling, the Plan is subject to currency risk because some of the Plan's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the

context of the overall investment strategy and believes that the currency exposure that exists diversifies the strategy and is appropriate.

Furthermore, the Trustee manages the amount of currency risk by either delegating currency hedging decisions to the investment managers or investing in a number of pooled funds that hedge currency exposure.

2.6. Interest rate and inflation risk

The DB Section of the Plan's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in bonds and derivative instruments that are sensitive to interest rate and inflation expectations. However, the interest rate and inflation exposure of the Plan's assets hedges part of the corresponding risks associated with the Plan's liabilities.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.7. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on its behalf and from time to time reviews how these risks are being managed in practice in the selection, retention and realisation of investments.

2.8. Illiquidity/marketability risk

For the DB Section, this is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due, or that the Plan will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of the Plan's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments and by investing in income generating assets, where appropriate.

For the DC Section, this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.

2.9. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Plan's assets. The Trustee believes that the Plan's DB assets and DC default strategy are adequately diversified between different asset classes and within each asset class and the DC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Plan's investment arrangements and is monitored by the Trustee on a regular basis.

2.10. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for its selected mandates.

2.11. Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

Counterparty risk is managed by the relevant investment manager through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

2.12. Collateral adequacy risk

The Plan is invested in a leveraged LDI arrangement to provide protection against adverse changes in interest rates and inflation expectations. The Plan is also invested in synthetic credit and equity strategies within the Bespoke LDI fund.

The LDI manager may from time to time call for additional cash to be paid to the portfolio in order to support a given level of leverage and / or liability hedge ratio. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the manager within the required timeframe.

A potential consequence of this risk is that the Plan's interest rate and inflation hedging (and/or credit and equity market exposure) could be reduced and that the Plan's funding level could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Plan has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the relevant manager at short notice.

2.13. Risk from excessive charges

Within the DC Section, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the Plan are in line with market practice and assess regularly whether these represent good value for members.

2.14. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Plan, and takes these into consideration as far as practical in setting the Plan's investment arrangements as part of its assessment of the other aspects of the Plan's Integrated Risk Management framework.

Examples for the DB Section include:

- longevity risk (the risk that members live, on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Plan as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Plan's funding position falls below what is considered an appropriate level. The Trustee regularly reviews progress towards the Plan's objectives, both in the longer-term as well as against short-term milestones.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and are positioned to manage this general risk.