Pfaudler Balfour Pension Plan

Statement of Investment Principles
May 2024

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1. Introduction

This document constitutes the Statement of Investment Principles ("the Statement") required by the Pensions Acts 1995 and 2004 (as amended by the Occupational Pension schemes (Investment) Regulations 2005) for the Pfaudler Balfour Pension Plan ("the Plan). It describes the investment policy being pursued by the Trustees of the Plan.

The Trustees have taken a one-time investment advice from Rosalind Scott-Douglas, Investment Director, Broadstone and consulted with the sponsoring employer and the scheme actuary prior to the preparation of this statment

The investment power of the Trustees are set out in Rule 4 of the Trust Deed and Rules. This Statement is consistent with those powers.

This Statement will be reviewed periodically and whenever changes to the Investment Strategy or Investment Adviser are made. A more full review will be considered at least once very three years.

A copy of this Statement will be made available to members on request.

The original Myners review of "Institutional Investing in the UK" was published in March 2021. It included a set of 10 principles that trustees were recommended to use when considering their investment strategy and trustees were asked to comply with the principles on a voluntary basis. The Myners principles were subsequently reviewed in October 2008 and a smaller number of high level principles were published. The Trustees believe that they are complying with the spirit of these principles.

2. Scheme Governance

In accordance with the Financial Services and Markets Act 2000, the Trustees are responsible for the general investment policy of the Plan's assets, but the responsibility for the day-to-day investment management decisions have been delegated to the Fund Managers authorised under the Act.

Where they are required to make an investment decision, the Trustees will receive advice from an Investment Adviser, where appropriate, and they believe that this, together with their own experience and knowledge, ensures that they are appropriately familiar with the issues concerned. The Trustees may also take advice on investment strategy from the Scheme Actuary.

The Trustees consider that the governance structure that they employ is appropriate for the Plan, as it allows the Truatees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Fund Managers.

The Trustees do not currently operate an Investment Sub-Committee. All investment decisions are taken by the Trustee Board as a whole. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.

The responsibilities of each of the parties involved are set out below.

The Trustees of the Plan are responsible for, amongst other things:

- Reviewing at least every three years, the content of the Statement and for modifying it if deemed appropriate in consultation with appropriate advisers where deemed necessary.
- Reviewing the appropriateness of the general investment objectives following the results of each actuarial or investment review.
- Appointing and dismissing Investment Advisers and Fund Managers as necessary for the good stewardship of the Plan's assets.
- Assessing the quality of the advice received, performance and process of any appointed Investment Advisers by means of regular reviews of the investment results and other information, through meetings and written reports, and through advice where appropriate.
- Reviewing the investment strategy following the results of each triennial valuation.
- Consulting with the sponsoring employer when reviewing investment policy.

The Investment Adviser, if appointed, will be responsible for, amongst other things:

- Participating with the Trustees in reviews of the Statement.
- At its discretion, but within any guidelines given by the Trustees, reviewing and implementing changes in the asset allocation or in the Fund Managers.
- Providing the Trustees with sufficient information, at least each quarter, to facilitate the review of its activities.
- Advising the Trustees of any changes in the Fund Managers that could affect the interests of the Plan.

- Advising the Trustees of any changes in the investment environment that could either present opportunities or problems for the Plan.
- Informing the Trustees immediately of any breach of this Statement, any breach of internal operating procedures and any change in the knowledge and experience of those involved in the Plan's investments or any change in the personnel or individuals involved in the Plan's investments.
- Advising the Trustees how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.

The Scheme Actuary will be responsible for, amongst other things:

- Liaising with the Trustees, the Investment Adviser and the Fund Managers.
- Commenting on the appropriateness of the Investment Strategy, relative to the liabilities of the Plan at the triennial valuations.
- Advising the Trustees how any changes within the Plan's benefits, membership and funding position may affect the manner in which the assets should be invested.

3. Investment Strategy and Implementation of Strategy

The Trustees, on the advice of the Investment Manager, have agreed an investment strategy that has lower risk, which targets a long term, low risk funding objective.

In support of this, during discussions at the Trustee meeting of 15th March 2023, the Trustees agreed to commission Broadstone to undertake the preparation of a report detailing an investment strategy consistent with the funding basis adopted for the actuarial valuation as of 1st November 2022. The Trustees ultimate objective of being able to secure member's benefits with an insurance company (buy-out), reached through a combination of investment return, financially positive plan experience and employee contributions.

The main investment objectives for the Plan are as follows:

- To operate an investment strategy that provides appropriate security for all beneficiaries.
- To acquire suitable assets of appropriate liquidity, which will generate income and growth to meet the cost of current and future benefits of the Plan.
- To limit the risk of the assets failing to meet the liabilities of the Plan over the long term.
- To generate a consistent monthly stream of income to meet the funds outgoing.
- Provide an element of protection for the schems's assets against interest rate and inflation risk.
- Reduce estimated deficit risk (on the solvency basis of the liabilities).
- Reduce Fees

The Trustees have a strategy to ensure the investment risk of the Scheme is reduced and the distribution within the funds will reflect that.

4. Asset Allocation

The Trustees are not currently using fixed asset allocation ranges for different asset classes.

The Trustees recognise the importance of asset allocation to the overall investment returns achieved, however, given the approach to managing the investments, the Trustees also recognise that the asset allocation will change as a result of a range of factors, including:

- Changes in market conditions changing the allocation to different asset types.
- Changes to the liability structure of the Plan.

Asset class / fund	Target allocation %
Baillie Gifford Sustainable Income Fund	20%
Insight Fully Funded Gilts 2051-2060	5%
Insight Fully Funded Gilts 2061-2070	10%
Insight Fully Funded Index-Linked Gilts 2031-2040	5%
Insight Fully Funded Index-Linked Gilts 2041-2050	5%
Insight Fully Funded Index-Linked Gilts 2051-2060	7%
Insight Fully Funded Index-Linked Gilts 2061-2070	7%
Insight Maturing Buy & Maintain Corporate Bonds 2021-2025	4%
Insight Maturing Buy & Maintain Corporate Bonds 2026-2030	3%
Insight Maturing Buy & Maintain Corporate Bonds 2031-2035	3%
Insight Maturing Buy & Maintain Corporate Bonds 2036-2040	10%
Insight Maturing Buy & Maintain Corporate Bonds 2041-2045	10%
Insight Maturing Buy & Maintain Corporate Bonds 2046-2050	10%
Trustee Bank Account	1%
Total:	100%

5. Diversification

The choice of asset classes is designed to ensure that the Plan's investments are adequately diversified and liquid, accepting the current significant allocation to properly assets. The Trustees monitor the strategy regularly to ensure that they are comfortable with the level of diversification being achieved. The Trustees acknowledge the requirement to ensure assets are diversified by asset class.

The risk of underperformance from the Plan's investment funds will be minimised by diversifying investments across different asset classes, geographical areas and sectors.

6. Risks

The Trustees recognise a number of risks involved in the investment of assets of the Plan, including:

- Funding and asset / liability mismatch risk – addressed through the asset allocation strategy and through regular actuarial and investment reviews. The Trustees accept that there is additional risk in not having specific liability hedging in place. The Trustees do not feel the expense of liability hedging is financially justifiable.
- Underperformance risk – addressed through regular monitoring of the Fund Managers.
- Risk of failing to meet the investment objectives – The Trustees will regularly monitor the investments to mitigate this risk.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- Risk of inadequate diversification or inappropriate investment – addressed through regular monitoring of the investments.
- Organisational risk – addressed through regular monitoring of the Fund Manager.
- Sponsor risk – the risk of the sponsoring employer ceasing to exist.
- Liquidity risk – the Plan aims to invest in non-property assets that are easily realisable at short notice.

The Trustees will keep these risks under regular review.

7. Social, Environmental and Ethical Issues

The Trustees have considered the extent to which social, environmental and ethical factors should be taken into account in the selction, retention and ralisation of investments. The Trustees believe their duty is to act in the best financial interests of their beneficiaries. The Trustees have decided the the standards as follows:

1. <u>Integration</u>

To look beyond current financial performances, undertaking proprietary research to build up an in-depth knowledge of the investments and a view on thie long-term prospects. All staff share the responsibility for identifying, analysing and monitoring ESG issues and opportunities within their current and potential holdings, supported by a dedicated and well-resources Governance and Sustainability team. The following indicators are examples of ESG issues considered by the investment managers in the investment decision making process:

- Board composition and board effectiveness
- Human capital management, diversity and equality
- Remuneration and alignment
- Corporate culture, capital allocation and tax policy
- Climate change
- Human rights
- Cyber security and data privacy
- An understanding of a company's relationship with its internal and external stakeholders.

2. <u>Stewardship</u>
In addition to ESG considerations, all investment staff are involved in stewardship work, and as long term investors, believe that their approach to monitoring holdings, engaging with management and voting thoughtfully supports investment performance. The Governance and Sustainability team work with the investment managerson the following stewardship activities:

- Proxy voting
- Collaboration, when appropriate, with other market participants
- Engaging on environmental, social and governance matters with investee companies

3. <u>Reporting</u>
We aim to be open and transparent on ESG issues. They provide us with regular reporting on their governance and sustainability integration, stewartdship policies and activities including:

- Proxy voting policy and activity report
- Governance and sustainability integration and engagement policy
- Philosophy and process for integration of governance and sustainability matters into the investment decision making process
- Evidence of engagement with investee companies
- Annual carbon footprint for equity portfolios

Our Investment Managers are also active members of a number of responsible investment organisations, including, but not limited to CDP, UNPRI, ICGN, ACGA and UKSIF.

8. Custody

As the assets are invested in pooled funds, the Trustees have delegated custody of the investments to the Fund Managers.

The Trustees have responsibility to ensure the management of the cash balance held in the Trustees' bank account.

9. Fees

Each Fund Manager will levy an annual management charge on the Plan's holdings in that particular fund. The annual management charge for the two current fund holdings is as follows:

Baillie Gifford Sustainable Income Fund	0.65
Insight Bonds / Gilts	0.25

All changes are deducted from the value of the Plan's investments, with "net of charges" values shown on the Fund Statements.

Investment Adviser fees are met by the Company.

10. Performance Monitoring

Whilst the Trustees are not involved in the Fund Manager's day-to-day method of operation and therefore cannot directly influence attainment of performance targets, they will assess performance and review the Fund Managers' appointment on an ongoing basis.

The appointment of the Fund Managers will be reviewed by the Trustees on an ongoing basis, based on the results of their monitoring of performance and investment process of the Fund Managers.

The Fund Manager will provide monthly investment reports to the Trustees, including a valuation of all the investments held for the Plan at prevailing market value on the last day of the month.

11. Statement of Funding Principles

The Pension Act 2004 requires that schemes carry out regular valuations on a scheme specific funding basis. The method and assumptions used for these valuations are documented in a Statement of Funding Principles. The Trustees will review their investment strategy to ensure consistency with the Plan's Statement of Funding Principles.