GCE SECTION OF THE HOWDEN GROUP PENSION PLAN

STATEMENT OF INVESTMENT PRINCIPLES

AUGUST 2023

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1 INTRODUCTION

This Statement of Investment Principles (the “Statement”) has been prepared by the Trustees of the GCE Section of the Howden Group Pension Plan (the “Plan”) in accordance with Section 35 of the Pensions Act 1995, as amended, and its attendant Regulations.

The Statement outlines the principles governing the investment policy of the Plan and the activities undertaken by the Trustees to ensure the effective implementation of these principles.

In preparing the Statement, the Trustees have:

- Obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Mercer Limited (“Mercer”), whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees’ investment policy for the Plan.

The Trustees will review the Statement formally at least every three years to coincide with the triennial Actuarial Valuation or other actuarial advice relating to the statutory funding requirements. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 INVESTMENT OBJECTIVES

The Trustees' primary investment objective for the Plan is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Plan.

The Scheme Actuary has not raised any concerns during the process of revising the Plan's investment strategy relating to any potential inconsistency with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

3 SUMMARY OF RESPONSIBILITIES

3.1 TRUSTEES' DUTIES AND RESPONSIBILITIES

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives. They carry out their duties and fulfil their responsibilities as a single body.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement
- The appointment and review of the investment manager and investment adviser
- The assessment and review of the performance of the investment manager
- The choice of appropriate pooled funds with the investment manager
- The assessment of the risks assumed by the Plan at the total scheme level
- The approval and review of the asset allocation benchmark for the Plan
- The compliance of the investment arrangements with the principles set out in the Statement

3.2 INVESTMENT ADVISER'S DUTIES AND RESPONSIBILITIES

The Trustees seek investment advice from Mercer, which provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which Mercer may be required to provide advice to the Trustees include the following:

- Setting of investment objectives
- Determining investment strategy and asset allocation
- Determining an appropriate investment structure
- Selecting and replacing the investment manager
- Setting cashflow management (investment and disinvestment) procedures (see Appendix 2)

The Trustees may seek advice from Mercer with regard to both strategic and tactical investment decisions, however, they recognise that they retain responsibility for all such decisions, including those that concern investments and disinvestments relating to cashflow (see Appendix 2). Mercer may be proactive in advising the Trustees regarding tactical investment decisions; however, there is no responsibility placed on Mercer to be proactive in all circumstances.

The Trustees monitor the performance of the Plan's investment manager against its benchmarks.

Mercer will be remunerated primarily on a fixed fee basis.

In particular, Mercer does not receive commission or any other payments in respect of the Plan that might affect the impartiality of their advice. The Trustees are satisfied that this is the most appropriate adviser remuneration structure for the Plan.

Mercer is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3 INVESTMENT MANAGERS' DUTIES AND RESPONSIBILITIES

The Trustees are long term investors and do not look to change the investment arrangements on a frequent basis.

The Trustees, after considering appropriate investment advice, have appointed a professional, authorised investment manager to manage the assets of the Plan.

The investment manager has been appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustees only invest in pooled investment vehicles and the Trustees therefore accept that they cannot specify the risk profile and return targets of the manager, but pooled funds are chosen with the appropriate characteristics to align with the overall investment strategy.

Details of the investment manager selected by the Trustees are set out in Appendix 3, with the details of each mandate.

The investment manager is responsible for all decisions concerning the selection and de-selection of the securities within the portfolios they manage.

The investment manager engaged by the Trustees is authorised and regulated by the Prudential Regulation Authority ("PRA"), and regulated by the FCA.

The investment manager is remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Plan. The Trustees believe that this is the most appropriate basis for remunerating the manager.

The pooled funds in which the Plan's assets are invested do not have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustees therefore consider that the method of remunerating the investment manager is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment manager, where relevant, to engage with issuers of debt in order to improve their performance in the medium to long-term.

The Trustees accept that they cannot influence the charging structure of the pooled funds in which the Plan invests, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics. The Trustees are therefore satisfied that this the most appropriate basis for remunerating the underlying investment manager and is consistent with the Trustees' policies as set out in this SIP.

3.4 SCHEME ACTUARY

The Scheme Actuary's responsibilities include the following:

- Liaising with the investment adviser regarding the suitability of the Plan's investment strategy given the financial characteristics of the Plan
- Assessing the funding position of the Plan and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequent, as required) valuations and advising on the appropriate contribution levels

3.5 ADMINISTRATOR

The Administrator's responsibilities include the following:

- Ensuring there is sufficient cash available to meet benefit payments as and when they fall due
- Paying benefits and making transfer payments
- Investing contributions not required to meet benefit payments with the investment manager according to the Trustees' instructions

4 INVESTMENT STRATEGY

4.1 SETTING INVESTMENT STRATEGY

The Trustees have determined their investment strategy after considering the Plan’s liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer’s appetite for risk, and the strength of the Sponsoring Employer’s covenant. The Trustees have also received written advice from their investment adviser.

The basis of the Trustees’ strategy is to position the Plan in a buy-out aware strategy comprised of corporate bond, fixed interest and index-linked gilt funds. The allocation was determined in the anticipation of receipt of a substantial contribution and that the Trustees are looking to buy-in the Plan’s liabilities (ahead of full buy-out) with an insurance company in the near future if insurer pricing is favourable. The Trustees regard the distribution of the assets to be appropriate for the Plan's objectives and liability profile.

The Trustees have established a benchmark allocation to each asset class, which is set out in Appendix 1.

In respect of the investment of contributions and any disinvestments to meet member benefit payments, the Trustees have decided on a structured approach in accordance with their overall strategy. This approach is set out in Appendix 2.

4.2 INVESTMENT DECISIONS

The Trustees distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term and are driven by an understanding of the objectives, needs and liabilities of the Plan.

The Trustees take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the hedging portfolios and the allocation to asset classes within the growth and hedging portfolios (Note: The Plan’s allocation is solely to liability hedging investments.)
- Determining the Plan benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment manager of the pooled funds in which the Plan is invested.

4.3 TYPES OF INVESTMENTS TO BE HELD

The Trustees are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds – fixed interest and inflation-linked
- UK and overseas corporate and convertible bonds
- Property
- Commodities
- Hedge funds, private equity and infrastructure
- High yield and emerging market debt
- Diversified growth funds (DGF)
- Liability driven investment

All of the funds in which the Plan invests are pooled and unitised. The use of derivatives is permitted by the guidelines that apply to the pooled funds. Details relating to the pooled funds can be found in Appendix 3.

4.4 FINANCIAL CONSIDERATIONS

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Plan's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance ("ESG") factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Plan's portfolio and it is therefore in members' and the Plan's best interests that these factors are taken into account within the investment process.

The Trustees further recognise that investing with a manager who approaches investments in a responsible way and takes account of ESG related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken

The Plan's assets are invested in pooled funds, and therefore the Trustees accept that they have no influence on the ESG policies and practices of the companies in which their manager invests. The Trustees will therefore rely on the policies and judgement of their investment manager.

The Trustees note that 80% of the Plan's assets are invested in fixed interest and index-linked gilts issued by the UK Government, and that ESG considerations do not readily apply to these investments.

The Trustees have reviewed the ESG policies of their manager and concluded that they are appropriate. These are available online via the manager website.

The Trustees will therefore rely on the policies and judgement of their investment manager when assessing the impact on the value of the Plan's investments.

The Trustees review ESG considerations as appropriate to make sure that their policy evolves in line with emerging trends and developments.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

4.5 NON-FINANCIAL CONSIDERATIONS

The Trustees only consider factors that are expected to have a financial impact on the Plan's investments. Non-financial considerations are not taken into account in the selection, retention and realisation of investments. For this purpose, non-financial matters mean the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Plan

4.6 CORPORATE GOVERNANCE AND VOTING POLICY

The Plan is invested solely in pooled investment funds, and the Trustees have no direct voting rights.

The Trustees' policy is therefore to invest with an investment manager where responsible investment is embedded appropriately in its approach to investment; including engaging with and monitoring investee companies and exercising voting rights appropriately.

The Trustees note that the investment manager's approach to responsible investment, voting and engaging with investee companies on the manager's website: https://www.lgim.com/uk/en/responsible-investing/.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Plan's membership.

4.7 STEWARDSHIP

The Trustees, will review the ESG and Stewardship policies of the underlying investment manager on a regular basis. As the Plan invests in pooled funds, the Trustees recognise that their ability to influence the stewardship policies of the underlying manager is limited. As such, any changes to the Trustees' view on these matters, or a fundamental change in the investment managers' policies, could potentially result in the investment manager being replaced.

If the Trustees have any concerns, they will raise them with their investment manager and their investment advisor.

5 RISK

The Trustees are aware, and seek to take account of a number of risks in relation to the Plan's investments.

Under the Pensions Act 2004, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Solvency Risk and Mismatching Risk

- Are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- Are managed by setting a scheme-specific strategic asset allocation with a low level of risk.

Manager Risk

- Is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- Is measured by investing in passively managed pooled funds and monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by appointing Mercer to monitor and replace the manager where concerns exist over their continued ability to deliver the investment mandate.

Liquidity Risk

- Is monitored according to the level of cashflow required by the Plan over a specified period.
- Is managed by holding an appropriate amount of readily realisable investments. The Plan's assets are invested in pooled funds which are readily realisable.

Political Risk

- Is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- Is managed by regular reviews of the investments and through assessment of the levels of diversification within the investment policy.

Corporate Governance Risk

- Is assessed by reviewing the Plan's investment managers' policies regarding corporate governance.
- Is managed by investing in a manager where responsible investment is embedded appropriately in their approach to investment.

Sponsor Risk

- Is assessed as the level of ability and degree of willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit.
- Is managed by assessing the interaction between the Plan and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor. Regular updates on employer covenant are provided to the Trustees by senior staff of the sponsor.

Legislative Risk

- Is the risk that legislative changes will require action from the Trustees so as to comply with any such changes in legislation.
- The Trustees acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Credit Risk

- Is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Trustees acknowledge that the assessment of credit risk on individual debt instruments is delegated to the investment manager.
- Is managed by investing largely in fixed interest and index-linked gilts, with the remainder in an investment grade credit fund.

Market Risk

- Is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of the following three types of risk

Currency Risk

- Is the risk that occurs when the price of one currency moves relative to another (reference) currency. In the context of a UK pension scheme, the Plan may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to sterling, thus negatively impacting the overall investment return.
- Is managed by investing solely in sterling denominated investments.

Interest/Inflation Rate Risk

- Is the risk that an investment's value will change due to a change in the level of interest/expected inflation rates. This affects debt instruments more directly than growth instruments (of which the Plan has a zero allocation to).
- The Trustees recognise that the Plan's liabilities are exposed to a significant level of interest rate and inflation risk movement and for this reason it is desirable for the Plan's assets to be exposed to a similar level of interest rate and inflation risk and the Trustees have invested heavily in fixed interest and index-linked gilt funds to manage this risk.

Other Price Risk

- Is the risk that principally arises in relation to the growth portfolio, to which the Plan has a zero allocation.

ESG Risk

- Is the risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on the return on the Plan's assets.
- The Trustees manage this risk by investing in a well-respected investment manager where ESG principles are appropriately included in the investment decision making process.
- The Trustees are aware that responsible investing is one of the core beliefs of the investment adviser. As a result part of the rating process of the investment adviser is based on its financial stewardship and how well the underlying investment manager integrates governance and sustainability into its investment process.

6 MONITORING OF INVESTMENT ADVISER AND MANAGER

6.1 INVESTMENT ADVISER

The Trustees continually assess and review the performance of their adviser in a qualitative way.

6.2 INVESTMENT MANAGER

The Trustees receive quarterly monitoring reports on the performance of the underlying investment manager from the manager, which present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance and performance against the manager's stated target benchmark on a gross of fees basis. They also provide returns on market indices to help inform the assessment of the underlying managers' performance.

The reporting reviews the performance of the Plan's individual funds against their benchmarks and objectives.

The Trustees in conjunction with advice from their investment advisor, have the role of replacing the underlying investment manager where appropriate. They take a long-term view when assessing whether to replace the underlying investment manager, and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer's manager research team. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

Changes will also be made to the underlying manager if there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

6.1 PORTFOLIO TURNOVER COSTS

The Trustees do not currently monitor portfolio turnover costs for the funds in which the Plan is invested, although note that the performance monitoring report which they receive is net of all charges, including such costs. Portfolio turnover cost means the cost incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustees are also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

Given that the Plan invests in a range of pooled funds, which invest across a range of asset classes. The Trustees are therefore satisfied that it is not appropriate to have an overall portfolio turnover target for the Plan.

7 CODE OF BEST PRACTICE

The Trustees note that in March 2017 the Pensions Regulator released ‘Investment Guidance for Defined Benefit Pension Schemes’.

The Trustees are satisfied that the investment approach adopted by the Plan is consistent with the guidance so far as it is appropriate to the Plan’s circumstances.

The Trustees will revise the Plan’s investment approach if considered appropriate.

8 COMPLIANCE

This Statement, which is available on a publically accessible website, supersedes all others and was approved by the Trustees:

Signed: [redacted]
....

Name: [redacted]
....

Date: 3 August 2023
....

APPENDIX 1: ASSET ALLOCATION

The Plan's strategic asset allocation benchmark is set out below.

Asset Class	Strategic Asset Allocation (%)
Corporate bonds	20
Fixed interest gilts	53
Index-linked gilts	27
Cash*	0
Total	**100**

*There is no long term allocation to cash, however, from time to time there may be the need to hold a proportion over the short term.

The asset allocation will naturally drift as investment market conditions change.

The policy for rebalancing and investment/disinvestment of cashflow is set out in Appendix 2.

Appendix 3 provides information about the funds in which the assets are invested.

APPENDIX 2: CASHFLOW AND REBALANCING POLICY

Where possible, cash outflows will be met from cash balances held by the Plan in order to minimise transaction costs.

Both investments and disinvestments will be undertaken in the same proportions as the strategic asset allocation as shown in Appendix 1.

The Trustees will review the cashflow policy from time to time to ensure that it remains appropriate taking into account changes in the Plan's cashflow requirements.

For avoidance of doubt, this Statement will not be revised purely in relation to a change in cashflow policy.

There will be no automatic rebalancing of the portfolio.

APPENDIX 3: INVESTMENT MANAGER INFORMATION

The Plan's assets are managed by Legal & General Investment Management (L&G). Details of the mandates with L&G are shown in the table below.

Manager / Fund	Benchmark	Objective	Dealing Frequency*	SORP/IFRS Class
L&G CT - AAA-AA-A Corporate Bond Over 15 Year Index	Market iBoxx £ Non-Gilts (ex-BBB) Over 15 Years Index	To track the benchmark to within +/- 0.50% p.a. for 2 years out of 3	Daily	Level 2
L&G BS – 0 to 5 Year Gilts Index	FTSE Actuaries UK Conventional Gilts up to 5 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
L&G BE – 5 to 15 Year Gilts Index	FTSE Actuaries UK Conventional Gilts 5-15 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
L&G AF - Over 15 Year Gilts Index	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
L&G LUAD – 5 to 15 Year Index-Linked Gilts Index	FTSE Actuaries UK Index Linked Gilts 5-15 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
L&G AP - Over 5 Year Index-Linked Gilts Index	FTSE Actuaries UK Index Linked Gilts Over 5 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
L&G HC - Over 15 Year Index-Linked Gilts Index	FTSE Actuaries Index-Linked Gilts Over 15 Years Index	To track the benchmark to within +/- 0.25% p.a. for 2 years out of 3	Daily	Level 2
L&G TA - Sterling Liquidity	To provide diversified exposure and a competitive return in relation to SONIA (Sterling Overnight Index Average).	Performance may be shown relative to this rate, but the fund does not specifically target this performance objective.	Daily	Level 2