Selwood Group Pension Scheme

Statement of Investment Principles

Barnett Waddingham LLP

28 July 2023

Contents

1. Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustee of the Selwood Group Pension Scheme (the "Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004.
- 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.

1.2. This statement supersedes the previous Statement of Investment Principles.

1.3. In preparing this statement the Trustee has consulted Selwood Group Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority.

1.4. The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by the statement.

1.5. The investment powers of the Trustee are set out in Clause 9 of the Definitive Trust Deed & Rules, dated 03 May 2002. This statement is consistent with those powers.

1.6. The Trustee completed a bulk annuity insurance transaction with Aviva Life & Pensions UK Limited (the "Insurer") in the contract dated 15 September 2022 to secure the benefits under the Scheme.

1.7. The asset switch to the insurer was completed on the settlement date 28 September 2022 from the Scheme bank account following a disinvestment of most of the holdings held with Columbia Threadneedle Investments. The Scheme retains some holdings with Columbia Threadneedle Investments in the Sterling Liquidity Fund.

2. Choosing investments

2.1. The Trustee's policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers as detailed in the Appendices to this Statement. The majority of assets are held in the bulk annuity insurance policy which is classed as an individual security provided by the Insurer. The investment managers / insurers are authorised and regulated by the Financial Conduct Authority and are responsible for stock selection and the exercise of voting rights. The Insurer is also authorised and regulated by the Prudential Regulation Authority.

2.3. The Trustee reviews the appropriateness of the Scheme's investment strategy on a periodic basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustee faces in achieving these objectives.

3.2. As a result, the Trustee's main investment objectives are:

- to ensure that the Scheme can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to manage the expected volatility in the Scheme's funding level in order to control the level of volatility in contribution levels;
- to invest in assets of appropriate liquidity to meet potential remaining liabilities that are not covered by the bulk annuity policy; and
- to reduce the risk of the assets failing to meet the liabilities over the long term.

3.3. The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the liabilities. The Trustee has obtained exposure to investments that they expect will meet the objectives as best as possible.

4. Kind of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustee monitors from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically, this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

5.1. The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendix 1 to this Statement.

5.2. The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this Statement.

5.3. From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short-term cashflow requirements or any other unexpected items.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the asset allocation of the Scheme will vary over time.

6. Risks

6.1. The various types of investment risk which may affect the Scheme's liabilities are covered under the bulk annuity purchase with the Insurer. Therefore, the vast majority of the risks set out below are effectively delegated to the Insurer to manage as part of the buy-in policy and are therefore judged to have minimal impact on the Scheme's ability to meet the liabilities as they fall due. However, the Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities:

Risk versus the liabilities	The Trustee notes that by securing the Scheme's benefits with an insurer that the risk of benefits not being met is now limited.
Covenant risk	The Scheme is less reliant on the strength of the employer's covenant as the Scheme's benefits have largely been secured with an insurer. When converting the buy-in policy into a buy-out policy with the Insurer, the Scheme will be reliant on the Employer to make good any shortfall in excess of the small amount of assets held outside of the insurance contract.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations.
Asset allocation risk	The asset allocation is detailed in Appendix 1 to this Statement and is monitored as required by the Trustee.
Investment manager risk	The Trustee monitors the performance of the residual assets (i.e. those held in cash outside the bulk annuity policy) as necessary. The Trustee has a written agreement with the investment manager(s), which contains a number of restrictions on how each investment manager may operate.
Governance risk	The asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement where possible.
ESG/Climate risk	The Trustee has considered long-term financial risks to the Scheme and ESG factors (as well as climate risk). While the Trustee considers these factors to be potentially financially material, it is noted that the impact of these risks on the Scheme's ability to pay members' benefits is limited given the security of the bulk annuity policy and residual assets being held in cash.
Concentration risk	The investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
Liquidity risk	The Scheme invests in assets, including cash, such that there is a sufficient allocation to liquid investments to meet the Scheme's cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
Currency risk	The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency hedging may be employed within some of the Scheme's assets to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by the investment manager is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud).

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by its professional advisors on these matters, who it deems to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the investment manager.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

7.3. In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

7.4. The Trustee has chosen to invest the vast majority of assets in a bulk annuity policy. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme and not covered by the policy.

8. Realisation of investments

8.1. The Trustee has considered the risk of liquidity as referred to above. The bulk annuity policy will pay those benefits covered by the policy.

8.2. The remaining assets of the Scheme are held in assets that can be realised at short notice.

9. Financially material considerations, non-financial matters, the exercise of voting rights, and engagement activities

9.1. The Trustee has set policies in relation to these matters. These policies are set out in Appendix 2.

10. Policy on arrangements with asset managers

Incentivising alignment with the Trustee's investment policies

10.1. Prior to appointing an investment manager, the Trustee discusses 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 Trustee's own investment beliefs.

10.2. 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 invest according to their objectives, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they may consider using another manager for the mandate.

10.3. The Trustee carries out periodic strategy reviews, as appropriate, where they assess the continuing relevance of the strategy in the context of the Scheme's membership and their aims, beliefs and constraints. The Trustee monitors the investment manager's approach to ESG and climate related risks on an annual basis.

10.4. 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.

10.5. Investment manager ESG policies are reviewed in the context of best industry practice and feedback will be provided to the investment managers if deemed appropriate.

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

10.6. The Trustee is mindful that the impact of ESG and climate change has a long-term nature. However, the Trustee recognises 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 Trustee acknowledges this in their investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over a rolling timeframe. The Trustee believes 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 Trustee expects this longer-term performance target to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustee expects 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 Trustee does not expect ESG considerations to be disregarded by the investment managers in an effort to achieve any short-term targets.

Method and time horizon for assessing performance

10.9. The Trustee undertakes periodic monitoring of the investment manager over medium to long term periods that are consistent with the Trustee's investment aims, beliefs and constraints.

10.10. The Scheme invests exclusively in pooled funds and annuity policies. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee. As the funds grow they receive more and as values fall they receive less. There are no explicit ongoing fees attached to the annuity policy. Allowances for future expenses associated with the contract were included in the purchase price.

10.11. The Trustee believes that this fee structure, including the balance between any fixed and performance related element, enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

10.12. The Trustee asks 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 as frequently as the Trustee considers appropriate in light of the prevailing circumstances.

Portfolio turnover costs

10.13. The Trustee acknowledges that portfolio turnover costs can impact on the performance of their investments. However, given the annuity policy and cash holdings of the Scheme, the Trustee notes that the impact of portfolio turnover costs is expected to have limited impact. Overall performance is monitored on a periodic basis as deemed appropriate by the Trustee.

10.14. During the investment manager appointment process, the Trustee 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. The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

10.15. For the open-ended pooled funds in which the Scheme invests, the duration of the arrangement is not predetermined under the terms of agreement with the investment managers. That being said, these arrangements will cease at the point that a buy-out policy is entered into.

10.16. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment beliefs is assessed as deemed necessary by the Trustee. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

11. Agreement

11.1. This statement was agreed by the Trustee and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the employer, the investment managers, the Scheme Actuary and the Scheme auditor upon request.

Signed:.. Date: ....

On behalf of the Selwood Group Pension Scheme

Appendix 1 The investment policy for the Scheme at July 2023 in relation to the current Statement of Investment Principles

Details of the Scheme's investment policy and fee agreements are provided in a document separate to the Statement of Investment Principles.

Appendix 2 Note on financially material considerations, the exercise of rights and engagement activities, conflicts of interest, and non-financial matters

Policy on financially material considerations

The Trustee believes that ESG factors are financially material – that is, they have the potential to impact the value of the Scheme's investments from time-to-time. However, as the Trustee has completed a purchase of a bulk annuity policy for the majority of the Scheme's liabilities, the Trustee has mitigated these risks by passing them on to the insurer through the policy. The remaining assets are held bearing in mind the nature of the potential additional liabilities that may fall due on the Scheme and are not covered by the policy.

Given the maturity profile of the Scheme and the objective to fund future member benefits from the Scheme's assets as they fall due, the Trustee recognises that pension schemes generally have long-term time horizons over which financial materiality of ESG factors (including, but not limited to, climate change) needs to be considered. That being said, the Scheme is looking to secure a full buy-out in a short number of years and this is taken into account as part of ESG considerations.

From time to time, the Trustee may ask the Scheme's investment manager to attend meetings and provide updates on the funds, which the Trustee may request to include an update on ESG considerations.

The Trustee takes 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, as a routine part of requests for information/proposals as well as through other regular reporting channels.

Retention of investments: Developing a robust monitoring process in order to monitor ESG considerations on an ongoing basis by regularly seeking information on the responsible investing policies and practices of the investment managers.

Realisation of investments: The Trustee will request information from investment managers about how ESG considerations are taken into account in decisions to realise investments.

The Trustee appreciates that the method of incorporating ESG in the investment strategy and process will differ between asset classes.

Policy on the exercise of voting rights and engagement activities

The Trustee's 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 Trustee's behalf. In doing so, the Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's 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 Trustee will 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 Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee 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.

The Trustee acknowledges 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 Trustee is 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 Trustee also recognises 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 Trustee considers it to be a part of their investment manager's role 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 in which the Scheme holds units.

The Trustee also considers it to be part of their investment manager's role 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 periodic monitoring.

The Scheme's investment manager is 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 Trustee has 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 Trustee notes that by securing the Scheme's benefits with an insurer they have limited ability to influence the voting and engagement activities undertaken on behalf of the annuity policy. The Scheme retains cash holdings but the Trustee notes that the ability to engage and the effect of engaging with investment managers and counterparties is limited for cash holdings. The Trustee therefore has not set stewardship priorities.

Conflicts of interest

The Scheme's investment adviser is independent and no arm of their business provides asset management services. This, and their FCA-regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflicts of interest.

The Trustee expects all investment managers and insurers to have conflicts of interest policies in relation to their engagement and ongoing operations.

The Trustee therefore believes it has managed the potential for conflicts of interest in the appointment of the investment managers, insurers, and investment adviser, and conflicts of interest between the Trustee, investment adviser, the investment managers, the insurers, and any underlying investee companies.

Policy for taking into account non-financial matters

When constructing the investment strategy and selecting investment managers the Trustee does not prioritise non-financial matters. Given the bulk annuity purchase, the Scheme has limited ability to address non-financial matters.