

Statement of Investment Principles (SIP)

This is the Statement of Investment Principles (the “Statement”) made by the Trustees of the Bowmer & Kirkland Group Pension and Life Assurance Scheme (“the Scheme”) in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustees on 15 December 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustees have consulted with the principal employer to the Scheme (Bowmer & Kirkland Limited) and have taken and considered written advice from the Investment business unit of Hymans Robertson LLP.

The Scheme is a defined benefit scheme which is still open to future accrual but is closed to new members.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustees’ over-riding funding principles for the Scheme are to set the employer and employee contributions at a level which is sufficient:

- to build up assets to provide for new benefits of active members as they are earned;
- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on a basis agreed by the Trustees and the Scheme Actuary.

This funding objective is designed to represent a balance between giving members a reasonable level of security in respect of accrued pension rights and ensuring that the employer contribution to the Scheme is realistic without being excessive.

The funding position is monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustees have translated their objectives into a suitable strategic (asset allocation) benchmark for the Scheme. The strategic benchmark is consistent with the Trustees’ view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests.

The investment strategy takes account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding basis used) and the Trustees’ view of the covenant of the principal employer.

The Trustees monitor strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme and will normally be reviewed annually. Written advice is sought as required from professional advisers.

The Trustees monitor the performance of Scheme investments relative to agreed criteria on a regular basis.

The Trustees have delegated all day to day investment decisions to an authorised investment manager.

To achieve their objectives the trustees have agreed the following:

Choosing investments

The Trustees have appointed BlackRock Advisors (UK) as the sole investment manager to manage Scheme investments. The manager is authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustees, after taking appropriate advice, have given the investment manager specific guidelines including, but not limited to, asset allocation and geographic spread, on how investment mandates are to be managed. Subject to the respective benchmarks and guidelines, the investment manager is given full discretion over the choice of underlying holdings and is expected to maintain diversified portfolios.

The Trustees review the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

Investment Strategy

The investment manager is instructed to deliver a specific performance target for each allocated investment, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable or appropriate, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme. The Trustees have decided to invest in a number of pooled funds with the investment manager. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

Investment Management Remuneration

Remuneration for each mandate is determined at its inception based on commercial considerations and typically set on an ad valorem basis (i.e. fees paid as a percentage of assets under management). Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to all their managers against industry standards.

Investment Time Horizon

The Trustees recognise the long-term nature of the Scheme's liability profile and appoint their manager to invest in a way that generates long-term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme's objectives.

The duration of each mandate is determined by the Trustees at its inception. For open-ended investments, the Trustees generally engage with the manager on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated, although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For closed-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market the manager will maintain a diversified portfolio of stocks.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets which, taken in conjunction with any contributions, is sufficient over time to match growth in the Scheme's pension liabilities.

Realisation of investments

The majority of the Scheme's investments may be realised quickly if required.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – i) The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities, and ii) The risk that unexpected increases in inflation increase the pension and benefit payments and Scheme assets do not grow quickly enough to meet this increased cost.
- Changing demographics - The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Scheme’s liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

Supported by their advisors, the Trustees measure and manage funding risks in a number of ways.

They have set a strategic asset allocation benchmark for the Scheme. The Trustees assess risk relative to that benchmark by monitoring the Scheme’s asset allocation and investment returns relative to the benchmark. The Trustees also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustees may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustees seek to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk - The risk that the currency of the Scheme’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund manager to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks - The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees manage asset risks as follows.

- They provide a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance

benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

- They invest across a range of asset classes to ensure sufficient diversification and to recognise the need to access funds in the short term to pay benefits.
- The risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio.
- The majority of the Scheme's mandates are sterling-denominated or the manager is expected to hedge currency exposures back to sterling.
- The decision to appoint only one investment manager does involve some degree of risk from potential underperformance of that manager which the Trustees accept as a reasonable compromise given the size of the portfolio.
- The approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of Scheme assets when held in custody or when being traded.
- Operational risk – The risk of loss as a result of fraud, cyber attacks, poor advice, acts of negligence or lack of suitable process.
- Legislative risk – The risk that managers of the Scheme fail to comply with changes to legislation.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees, supported by their advisors, monitor and manage risks in these areas through a process of regular scrutiny of the provider and audit of the operations it conducts for the Scheme or have delegated such monitoring and management of risk to the appointed investment manager as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustees seek professional advice.

Manager engagement

Performance Evaluation

The Trustees do not expect the manager to take excess short-term risk and carry out regular monitoring of the Scheme's investments and manager. This monitoring includes a review of investment performance of each mandate relative to its respective benchmark or performance target on a short, medium and long-term basis.

The Trustees also seek information from their investment manager on meeting objectives of the mandates and exercising stewardship responsibilities including engagement with issuers (as set out in greater detail in the section on Stewardship), and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Where necessary, the Trustees will draw input from their investment advisors to provide input and analysis to support any such review of and engagement with its investment manager. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the manager as part of its engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustees will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reduced or terminated.

Portfolio turnover

The Trustees have an expectation on the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of transactions over the period. The Trustees will challenge the manager if there is a sudden change in the portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the asset manager over the Scheme's reporting year.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the inherent uncertainty, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark.

Structural considerations

For any active investment mandates, given the discretion afforded to the investment manager, the Trustees expect that their investment manager will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate. Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual Investment Manager. The Trustees are satisfied that the investment manager is following an approach which takes account of all financially material factors.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which their current strategy has been set. The Trustees will review the index benchmarks employed for the Scheme on at least a triennial basis.

Selecting investment managers

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustees explicitly consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Scheme, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy and taking account of current best practice including the UK Stewardship Code.

Where relevant, the Trustees have reviewed the voting policies of their investment manager and determined that these policies are appropriate.

Where appropriate, the Trustees will engage with and may seek further information from their investment manager on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it is sometimes appropriate for its investment manager to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and their investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

The investment manager reports on voting activity to the Trustees on a periodic basis. The Trustees will monitor the investment manager's voting activity and may periodically review their voting pattern. The Trustees may also monitor the investment manager's voting on particular companies or issues affecting more than one company.

The Trustees meet with their Investment Manager regularly. The manager is challenged directly by the Trustees on the impact of any significant issues including, where appropriate, ESG issues that may affect the outlook for the portfolio.

Governance Arrangements

There are a number of parties involved in the Scheme's investment arrangements. The Trustees have ultimate responsibility for the management of the Scheme and its investments but delegate a number of decisions and responsibilities to specialist advisors and fund managers.

The Trustees confirm that all parties to whom responsibility has been delegated have the appropriate knowledge and experience required to take on this role. The Trustees expect each party to carry out the duties delegated to them giving effect to the principles in this statement insofar as is reasonably practical.

Signed for and on behalf of the Trustees of The Bowmer & Kirkland Group Pension and Life Assurance Scheme

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Trustee

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Date

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Trustee

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Date