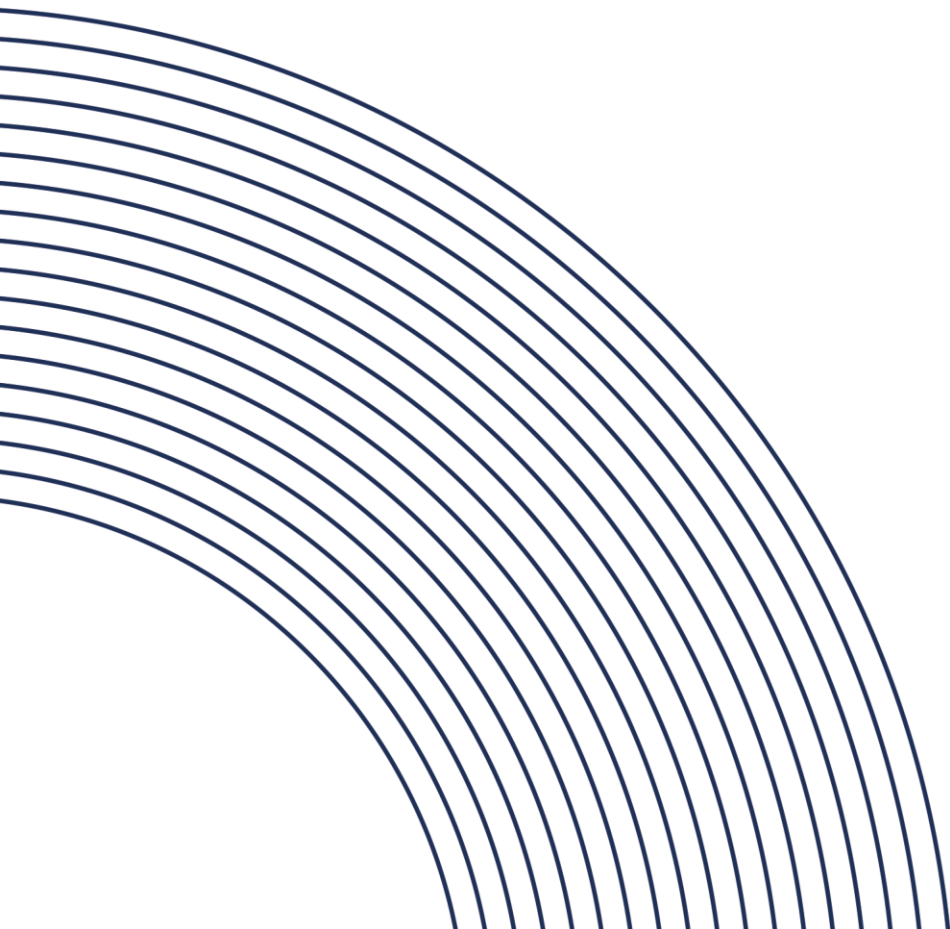


Samworth Brothers Limited Superannuation Scheme

Statement of Investment Principles

March 2022



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1. Introduction

This document constitutes the Statement of Investment Principles (the "SIP") required under Section 35 of the Pensions Act 1995 for the Samworth Brothers Limited Superannuation Scheme (the "Scheme"). It describes the investment policy being followed by Samworth Brothers Superannuation Scheme Trustee Limited (the "Trustee") and is constructed having regard to the Government's voluntary code of conduct for Institutional Investment in the UK (the "Myners Principles") and the Pensions Regulator's Investment guidance for defined benefit pensions schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

The Scheme's Investment Adviser is Schroders Solutions ('the Investment Adviser'). The Trustee confirms that, before finalising this SIP, it has consulted with Samworth Brothers Limited ('the Sponsoring Employer') and has obtained and considered written advice from the Investment Adviser. The Scheme is governed by its Trust Deed and Rules which set out all of the benefits in detail and specifies the Trustee's investment powers. This statement is consistent with those powers. There is also an additional voluntary contribution (AVC) section of the Scheme.

Appendix A sets out details of the Scheme's investment governance structure, including the key responsibilities of the Trustee and the Advisers.

Declaration

The Trustee confirms that this Statement of Investment Principles reflects the investment strategy they have implemented for the Scheme. The Trustee acknowledges it is its responsibility, with guidance from the Investment Adviser, to ensure the assets of the Scheme are invested in accordance with these Principles.

Signed

Date:

For and on behalf of Samworth Brothers Superannuation Scheme Trustee Limited.

2. Investment Objectives

The Pensions Act 2004 requires that, in most cases, a defined benefit occupational pension scheme is subject to a requirement (the statutory funding objective) that it must have sufficient and appropriate assets to cover the scheme's 'technical provisions', that is, the amount required, on an actuarial calculation, to make provision for the scheme's liabilities.

In meeting this objective, the Trustee has set a number of specific qualitative and quantitative investment objectives.

Qualitative investment objectives

The Trustee has set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in Section 6 of this statement, which will generate income and capital growth to pay, together with Recovery Plan contributions from the Sponsoring Employer, the benefits which the Scheme provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long-term having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Scheme Actuary's assumptions over the long term.

Quantitative investment objectives

The Trustee has translated these qualitative objectives into a measurable and quantifiable objective in relation to the 'Technical Provisions' liabilities in order to monitor the ongoing performance of the Scheme's investments.

In quantitative terms, the Trustee's long-term objective for the Scheme is to target an investment return of approximately 2.6% per annum (net of fees) in excess of the Liability Related Objective ("LRO");

The Liability Related Objective ("LRO") is calculated directly from the Scheme's liability cashflows. Specifically, the LRO will take account of the change in past service liabilities due to changes in interest rates and inflation

The LRO will be updated from time to time as updated cashflow information becomes available from the Scheme Actuary.

3. Investment Strategy

3.1 General Policies

The Trustee sets the investment strategy with regard to the Sponsor covenant and the Scheme's liabilities. In setting the investment strategy, the Trustee has defined:

- A suitable liability related return objective
- The 'matching/'growth' asset split to meet this objective.

The 'matching and 'growth' components are comprised as follows:

Matching assets including liability hedging

- The focus is risk management and protection relative to the liabilities
- Invested in fixed interest gilts, index-linked gilts, cash and derivatives.
- The objective of the Matching assets including liability hedging is to deliver a return in line with a proportion of the Scheme's liabilities in the long-term.

Growth assets

- The focus is on return generation and taking risk in a controlled manner.
- Such assets could include equities, high yield bonds, property, commodities and other alternatives.
- The objective of the Growth assets is to deliver a return in line with cash +4% p.a. in the long-term.

The Trustee's investment return objective guides the split of assets between these two components.

3.2 Asset Allocation

The Trustee regards the choice of asset allocation as a decision which has great influence on the success of meeting the objectives. Having considered advice from the Investment Adviser on the suitability of the investments, the need for diversification, the principles contained in this statement including taking account of the objectives and liability profile, the Trustee has decided upon the following strategic asset allocation:

	Asset Class	Allocation
	Equities	25%
	Dynamic Asset Allocation	20%
Growth	Hedge Funds	7.0%
	Property	7.0%
	Infrastructure	6.0%
Matching	Liability Hedging	35% (See parameters below)

The Trustee, in conjunction with the Investment Adviser, will formally monitor the actual asset allocation of the Scheme on a quarterly basis.

Liability Hedging Parameters

The Trustee has agreed the liability hedge will be governed by a set of broad parameters covering both interest rates and inflation; these can be found in the Statement of Investment Implementation.

The assets are invested in a diverse portfolio of investments in order to reduce investment risk as detailed in section 6. These investments include a range of pooled vehicles, authorised unit funds, and segregated UK index-linked and conventional bonds and derivatives.

3.3 Investment Managers

While the Trustee makes decisions regarding the overall strategic asset allocation defined in section 3.2, the Trustee has appointed professional fund managers (“the investment managers”) for the day-to-day management of the Scheme’s assets. The investment managers and details around the specific funds the Scheme invests in are detailed further in a Statement of Investment Implementation (“SII”).

The investment managers are responsible for the allocation of the Scheme’s assets between categories of investment and for the selection of individual stocks with each category of investment. The investment managers are authorised and regulated by the Financial Conduct Authority.

The Trustee expects the investment managers to exercise their investment powers with a view to giving effect to the principles contained in this statement so far as reasonably practicable. In particular, the investment managers must have due regard to the suitability and diversification of the investments made on behalf of the Scheme.

The Trustee has signed agreements with the investment managers which are consistent with this statement and detail the scope of each investment manager’s activities including any investment restrictions. The Trustee has received advice on the appropriateness of the investment managers’ targets, benchmarks and risk tolerances from the Investment Adviser and believes them to be suitable to meet the Scheme’s investment objectives. Further details on the specific mandates and performance benchmarks for each investment manager are set out in their governing documentation.

4. Other Investment Considerations

4.1 Corporate Governance and Stewardship

The Trustee and the investment managers have agreed, and will maintain, formal Manager Agreements and pooled fund documentation setting out the scope of each Investment Manager's activities, its charging basis and other relevant matters. The appointment of the investment managers is ongoing. The investment managers under an Investment Management Agreement (for segregated mandates) have been provided with a copy of this SIP and are required to exercise their powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Scheme investments are generally made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the investment managers. The Trustee periodically reviews the overall value-for-money of using the Investment Advisor (as specified in the Scheme's Investment Consulting objectives) and investment managers. In addition, the annual management charges of all investment managers are documented in the SII.

The investment managers where appropriate adopt an active approach to corporate governance. The Trustee would prefer to engage with companies rather than boycott particular shares or companies. The Trustee is aware of the policy of the investment managers concerned regarding corporate governance and have delegated the responsibility for activity in this area to the investment managers.

The Trustee has retained the use of voting (and other) rights attached to their mandates; however, the respective managers of the mandates retain responsibility for voting on their underlying holdings.

The Trustee and Investment Adviser undertake regular reviews of the investment managers. These incorporate benchmarking of performance and fees, with some managers on performance-related fees, as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustee review the governance structures of the investment managers, as well as assessing whether their fees, expenses including portfolio turnover costs (where available and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustee and Investment Adviser assess whether the investment manager remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects the investment managers:

- to align its investment strategy and decisions with the Trustee's investment policies, such as their return target and the restrictions detailed in the Investment Management Agreements or pooled fund investment documentation, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which are reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Adviser monitor this as part of ongoing review. As an FCA regulated firm, the Investment Adviser is required to prevent or manage conflicts of interest. The Investment Adviser's Conflict of Interest policy is available publicly here:

<https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/>

4.2 Financially Material Investment Considerations

These considerations, which include the below “Risks” in Section 6, can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as “ESG”) where relevant. The Trustee delegates the day-to-day consideration of financially material factors to the investment managers who considers these when constructing their portfolios. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long-term performance, by the Trustee as part of the investment manager selection criteria. This review occurs before investment managers are approved for investment in the portfolio. Once an investment manager is appointed, the Investment Advisor and Trustee will monitor the investment manager for ongoing compliance with the expected standards at appointment and with other factors, such as stewardship, as a part of overall governance and engagement.

4.3 Additional Voluntary Contributions (AVCs)

Under the Scheme’s Trust Deed and Rules, members were allowed to invest Additional Voluntary Contributions to improve the benefits they receive in retirement. The Trustee had selected a range of investment funds with Royal London for the AVCs to be invested in.

The Royal London With-Profits Fund looks after AVCs for existing holders. In addition, there are AVC assets, for which the Trustees are responsible, in the following funds:

- Royal London UK Equity Fund
- Royal London Pacific Fund
- Royal London Managed Fund

The Trustee reviews these arrangements regularly having regard to their performance, the objectives and the views of the Advisers.

From 1 September 2018, due to the closure of the Scheme to future accrual, no further AVC contributions are being made into these funds.

4.4 Employer-Related Investments (ERI)

Not more than 5% of the market value of the Scheme’s assets may at any time be invested in ERI.

4.5 Use of Derivatives

The Trustee may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. These derivatives will typically be used for risk management purposes (for example, for hedging currency risk, interest rate and inflation risks inherent in the Scheme’s liabilities, or falls in equity markets). However derivatives may also be used for efficient portfolio management purposes.

4.6 Custody

All of the investment managers have their own custodian arrangements which have not been directly appointed by the Trustee.

4.7 Realisation of Assets

The Trustee’s policy is to ensure the assets invested are sufficiently realisable to enable it to meet its obligations to provide benefits as they fall due and are satisfied the arrangements in place conform with this policy. The Scheme’s assets are held in pooled funds or segregated accounts, the majority of which can be realised easily if the Trustee so requires. The Trustee will only agree to invest in illiquid assets (or assets taking more than year to fully liquidate) if they believe the expected returns are sufficient to compensate for the illiquidity.

4.8 Non-financially material investment considerations

The Trustee does not at present take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is likely no common view on any ethical matters which members are likely to hold. At this time the Trustee has no plans to seek the views of the membership on ethical considerations.

5. Monitoring

5.1 Investment Managers

The Trustee, or the Investment Adviser on behalf of the Trustee, will monitor the performance of the investment managers against the agreed performance objectives.

The Trustee, or the Investment Adviser on behalf of the Trustee, will regularly review the activities of the investment managers to satisfy themselves that they continue to carry out their work competently and has the appropriate knowledge and experience to manage the assets of the Scheme.

As part of this review, the Trustee will consider whether or not the investment managers:

- Are carrying out their function competently.
- Have regard to the need for diversification of investments.
- Have regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with an investment manager, it will ask the investment manager to take steps to rectify the situation. If the investment manager still does not meet the Trustee's requirements, the Trustee will remove that investment manager and appoint another.

5.2 Investment Adviser

The Trustee will monitor the advice given by the Investment Adviser on a regular basis.

5.3 SIP

The Trustee will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Investment Adviser and the Sponsoring Employer. There will be no obligation to change this SIP or review any investment manager or the Investment Adviser as part of such a review.

5.4 Trustee

Through the minutes of each meeting, the Trustee maintains a record of all decisions taken, together with the rationale in each case.

5.5 Reporting

The Trustee will monitor the performance of the Investment Adviser through the regular receipt of reporting.

5.6 Auditors

The Scheme's auditor carries out an annual review of investment administration practices along with compliance with this SIP.

6. Risks

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. These risks, and how they are measured and managed, include:

- i. **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:

A liability related objective or 'LRO' is used as a proxy for the liabilities (as described in Section 2) in order to measure the approximate changes in the liabilities (due to changes in interest rates and inflation only). The Trustee monitors this change relative to the change in asset values on a quarterly basis. The LRO is reviewed following each actuarial review.

The Trustee also recognises the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience. This is managed through aiming for a higher overall investment return than implied by the liabilities.

When setting and reviewing investment strategy, the Trustee examines how the investment strategy impacts on downside risk.

This risk is also monitored through regular actuarial and investment reviews.

- ii. **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
- Appropriate diversification across asset classes, within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly
 - The use of instruments and strategies designed to control the extent of downside exposure
 - The use of passive management for asset classes where the downside risk of active management is considered too high
 - Regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate, and by use of more than one manager to avoid over exposure to one organisation
- iii. **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries
- iv. **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets
- v. **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Managers. This is addressed in the agreements with the Investment Managers which contain a series of restrictions. The activity of the Investment Managers and their processes are monitored regularly by the Investment Advisers on behalf of the Trustee
- vi. **Organisational risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through regular monitoring of the Investment Managers and Investment Adviser
- vii. **Counterparty risk** – the risk of the counterparty to an agreement not carrying out their side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty
- viii. **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Scheme to control the timing of any investment/disinvestment of assets.
- ix. **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustee regularly reviews the covenant of the Sponsoring Employer

- x. **Credit risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Managers e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk
- xi. **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the ESG assessment at the point of investment with the investment managers and as part of the ongoing investment manager monitoring process
- xii. **Market risk** which is comprised of three types of risk: **currency risk, interest rate risk and other price risk**
 - o Interest rate risk – the risk that the value of and income from a financial instrument will fluctuate because of changes in market interest rates. This can be mitigated with the implementation of liability hedging
 - o Currency Risk – the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The effect of this can be reduced by placing currency hedge trades to offset movements in exchange rates. The Trustee has delegated currency hedging to some of their Investment Managers through the use of currency hedged share classes/funds
 - o Other price risk – the risk that the value of and cash flow from a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). This price risk can be mitigated through effective diversification and asset allocation decisions

Appendix 1 Responsibilities

Trustees

The Trustee of the Scheme is responsible for, amongst other things:

- i. Determining the investment objectives of the Scheme and reviewing these from time to time.
- ii. Agreeing an investment strategy designed to meet the investment objectives of the Scheme.
- iii. Reviewing regularly the content of the SIP and SII and modifying those if deemed appropriate, in consultation with the Investment Adviser and the Sponsoring Employer.
- iv. Reviewing the suitability of the investment policy following the results of each actuarial or investment review, in consultation with the Investment Adviser and Scheme Actuary.
- v. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, by way of meetings and written reports, in consultation with the Investment Adviser.
- vi. Appointing and dismissing the Investment Managers and custodians in consultation with the Investment Adviser.
- vii. Assessing the ongoing effectiveness of the Investment Adviser.
- viii. Consulting with the Sponsoring Employer when reviewing investment policy issues.
- ix. Monitoring compliance of the investment arrangements within this SIP on an ongoing basis.
- x. Advising the Investment Adviser of any changes to Scheme benefits and significant changes in membership.

Investment Managers

The Investment Managers will be responsible for, amongst other things:

- i. At their discretion, but within any guidelines given by the Trustee, implementing changes in the asset mix and selecting and undertaking transactions in specific investments within each asset class to achieve the stated objective
- ii. Providing the Trustee with sufficient information each quarter to facilitate the review of its activities, including:
 - o A report of the strategy followed during the quarter
 - o The rationale behind past and future strategy
 - o A full valuation of the assets and a performance summary
 - o A transaction report and a cash reconciliation (if requested)
- iii. Informing the Trustee immediately of:
 - o Any breach of this SIP that has come to their attention
 - o Any serious breach of internal operating procedures
 - o Any material change in the knowledge and experience of those involved in managing the Scheme's investments
 - o Any breach of investment restrictions agreed between the Trustee and the Investment Managers from time to time

Investment Adviser

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

- i. Participating with the Trustee in reviews of this SIP.
- ii. Advising the Trustee how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested.
- iii. Advising the Trustee of any changes in the Scheme's Investment Managers that could affect the interests of the Scheme.
- iv. Advising the Trustee of any changes in the investment environment that could either present opportunities or problems for the Scheme.
- v. Undertaking reviews of the Scheme's investment arrangements including reviews of the asset allocation policy and the current Investment Managers, and selection of new managers, as appropriate.

Scheme Actuary

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

- i. Liaising with the Investment Adviser on the suitability of the Scheme's investment strategy.
- ii. Performing the triennial (or more frequently as required) valuations and advising on the appropriate Recovery Plan contribution levels.
- iii. Commenting on the appropriateness of the investment strategy relative to the liabilities of the Scheme at the triennial valuations.
- iv. Advising the Trustees and Investment Adviser of any changes to the Recovery Plan contribution levels and funding level.

Custodian

The Custodian will be responsible for, amongst other things:

- i. Safe-keeping and administration of all the directly held assets.
- ii. Collecting income from assets and transferring it to the Trustee.
- iii. Processing all tax reclaims in a timely manner.
- iv. Reconciling records of assets held with those of the Investment Managers.