

## HWG 2006 Limited Pension Plan

### Statement of Investment Principles

The Trustee of the HWG 2006 Limited Pension Plan (the “Plan”) has drawn up this Statement of Investment Principles (“SIP”). Details of the implementation of the Plan’s investment principles are set out in a separate document, the Investment Implementation Document (“IID”).

#### **Introduction**

Under the Pensions Act 1995 (as updated by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustee of the Plan.

The Trustee has consulted with the Company, Arran Isle Limited, on the principles set out in this statement and will consult the Company on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

Before drawing up this statement, the Trustee has obtained and considered written advice from the Plan's Investment Consultants (Isio Group Limited). The Trustee will review this document regularly as described in section “Review of this Statement”. Consistent with the requirements of the Competition and Markets Authority, the Trustee monitors the appropriateness of their investment consultants against defined objectives.

In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently. The Plan is registered under the Finance Act 2004.

The Trustee is satisfied, taking into account the external expertise available, that it has sufficient in-house staff to support it in its investment responsibilities and believes that it has sufficient expertise and appropriate training to evaluate critically the advice it receives.

The Trustee is satisfied that it has an appropriate set of skills and the right structures and processes, to carry out its role effectively.

The Trustee, which is independent of the Company, is paid for its services as Trustee of the Plan.

#### **Update to this Statement**

The Trustee notes the period of heightened market volatility towards the end of September 2022 and into October 2022, in particular within the gilt market. Over the period, the Trustee took several actions to aid its liquidity position and its ability to provide collateral to support the Liability Driven Investment (“LDI”) mandate with LGIM. These actions included redemptions from non-LDI mandates which has meant the current asset allocation has

materially deviated from the target asset allocation (and importantly, outside of the agreed control ranges). We will consider any rebalancing as necessary in due course.

### **Risk management**

The Trustee takes a holistic approach to considering and managing risks when formulating the Plan’s investment strategy.

The Plan’s investment strategy was derived following careful consideration of the factors set out in Appendix A.

### **Investment objective**

To guide it in its strategic management of the assets and control of the various risks to which the Plan is exposed, the Trustee has adopted the following investment objectives:

- To maintain a portfolio of assets of appropriate liquidity which will generate income and capital growth to meet benefits which the Plan provides;
- To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter term basis as required by prevailing legislation;
- To reduce volatility in the funding level of the Plan as measured by the benefits that may be secured for members in the event of the Plan winding up or entering an assessment period for the Pension Protection Fund (PPF);
- To achieve a return reflecting the scheme specific benchmark;
- To achieve, over the long term, a return on the investments which is consistent with the long term assumptions made by the Plan Actuary in determining the funding of the Plan.

### **Investment strategy**

In 2022, following a review of the Plan’s investments and consideration of the Plan’s investment objectives, a revised long-term investment strategy was agreed as follows:

<b>Asset Class</b>	<b>Strategic Asset Allocation (1) (%)</b>	<b>Strategic Asset Allocation excl. LDI (%)</b>
Multi-Asset Credit	37.5	60.0
Absolute Return Bonds (LDI collateral)	25.0	40.0
Liability Driven Investment ("LDI")	37.5	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

(1) The Plan’s actual asset allocation may deviate from the table due to market movements and active management of the portfolio.

The Plan currently holds a small allocation to each of the Commercial Real Estate Debt and Direct Lending mandates (less than c.7.5% per mandate), however, these mandates are now distributing capital back to the Plan and are expected to completely unwind over the coming years. Therefore, no allowance has been made for these mandates in the above long-term

Strategic Asset Allocation. We include references to these managers, however, as needed below given they are existing investments.

The LDI allocation aims to provide a hedge against the interest rate and inflation rate sensitivity of the Plan's liabilities on a technical provisions basis. The target hedge is set out in the IID. The Plan may deviate from its initial allocation due to market movements but it would not be appropriate to rebalance the assets as doing so would change the hedge ratio. Thus the Trustee will monitor and rebalance (where possible) the Plan's asset allocation excluding LDI.

Based on long-term expectations of the asset classes, the estimated expected return is 1.3%p.a. above gilts.

### **Investment mandates**

The Trustee has appointed Legal & General Investment Management ("L&G"), M&G Limited ("M&G"), La Salle Investment Management ("LaSalle") and Alcentra Limited ("Alcentra") to manage the assets of the Plan as listed in the IID. All the investment managers are authorised and regulated by the FCA under the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. This delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies in the above respects into account when selecting and monitoring managers. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The investment manager's remuneration is based upon a percentage value of the assets under management. The fees have been negotiated to be competitive. The Plan's mandates for Direct Lending and Commercial Real Estate Debt are also subject to a performance related fee element.

As all of the Plan's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends.

Further detail on the investment mandates is set out in the IID.

### **Investment manager monitoring and engagement**

The Trustee monitors and engages with the Plan's investment managers and other

stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas of engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<ul style="list-style-type: none"> <li>• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee/ISC meeting.</li> <li>• The Plan's investment managers may be invited, in person, as required, to present to the Trustee on their performance, strategy and risk exposures.</li> </ul>	<ul style="list-style-type: none"> <li>• There are significant changes made to the investment strategy.</li> <li>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.</li> <li>• Underperformance vs the performance objective over the period that this objective applies.</li> </ul>
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> <li>• The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>• The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.</li> <li>• The Trustees will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.</li> </ul>	<ul style="list-style-type: none"> <li>• The manager has not acted in accordance with their policies and frameworks.</li> <li>• The manager's policies are not in line with the Trustee's policies in this area.</li> </ul>

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

### **Employer-related investments**

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Plans (Investment) Regulations 2005 except where the Plan invests in pooled vehicles that may hold employer-related investments, in

which case the total exposure to employer-related investments will not exceed 5% of the Plan's value. The Trustee will monitor this annually.

### **Rebalancing**

The Trustee will consider the balance of assets on a quarterly basis between the various managers as required in order to maintain the investments in line with the Plan's strategic benchmark, as appropriate.

### **Additional assets**

Assets in respect of members' additional voluntary contributions (AVCs) are held in a range of with-profit and unit-linked funds through policies held by the Trustee with various providers (Aviva, Clerical Medical, Utmost Life, Standard Life, Prudential). No further contributions are being paid to any of these policies.

The Trustee's objective is to provide funds which will provide suitable returns for members of all ages, consistent with reasonable expectations.

### **Direct investments**

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

### **Monitoring the Investment Manager**

The Trustee meets the investment managers periodically to review their actions together with the reasons for and background behind the investment performance. Isio Group Limited have been appointed as investment consultants to assist the Trustee in fulfilling its responsibility for monitoring the investment manager.

### **Bundled brokerage and soft commission arrangements**

Alcentra, LaSalle, L&G and M&G do not have soft commission arrangements in place.

### **Rights attaching to investments**

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

### **Compliance with this statement**

The Trustee will monitor compliance with this Statement. In particular they will obtain written confirmation from the investment managers that they have complied with this Statement as supplied to them.

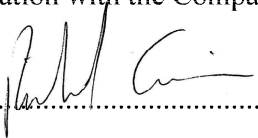
When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee's investment advisers, Isio Group Limited, are qualified by their ability in and

practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Plan.

**Review of this Statement**

The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee, and the sponsoring Company which it judges to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the actuarial valuation or immediately after there have been any significant changes in investment policy. Any such review will again be based on written, expert investment advice and will be in consultation with the Company.

**Date:**  .....

**Signed:** Richard Cousins ..... 26 July 2023 .....

## Appendix A – Risks, Financially Material Considerations and Non-Financial Matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>• Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength.</li> <li>• Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>• Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>• The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	<ul style="list-style-type: none"> <li>• When developing the Plan's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.</li> </ul>

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, these are summarised below:

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of these risks.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.

Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustee monitors the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Where possible, hedge all currency risk on all assets that deliver a return through contractual income.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.



## Appendix B

The Trustee has the following policies in relation to the investment management arrangements for the Plan:

<p><b>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee policies.</b></p>	<ul style="list-style-type: none"> <li>• As the Plan is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.</li> <li>• The Plan’s mandates with LaSalle and Alcentra are subject to a performance related fee.</li> </ul>
<p><b>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</b></p>	<ul style="list-style-type: none"> <li>• The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements.</li> </ul>
<p><b>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee policies.</b></p>	<ul style="list-style-type: none"> <li>• The Trustee reviews the performance of all of the Plan’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.</li> <li>• The Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years.</li> </ul>
<p><b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</b></p>	<ul style="list-style-type: none"> <li>• The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.</li> </ul>
<p><b>The duration of the Plan’s arrangements with the investment managers</b></p>	<ul style="list-style-type: none"> <li>• The duration of the arrangements is considered in the context of the type of fund the Plan invests in. <ul style="list-style-type: none"> <li>○ For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee’s objectives and Plan’s liquidity requirements.</li> <li>○ For open ended funds, the duration is flexible and the Trustee will, from time-to-time, consider the appropriateness of these investments</li> </ul> </li> </ul>

	and whether they should continue to be held.
<b>Voting Policy - How the Trustees expect investment managers to vote on their behalf</b>	<ul style="list-style-type: none"> <li>• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their behalf.</li> </ul>
<b>Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'</b>	<ul style="list-style-type: none"> <li>• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf.</li> <li>• The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.</li> </ul>