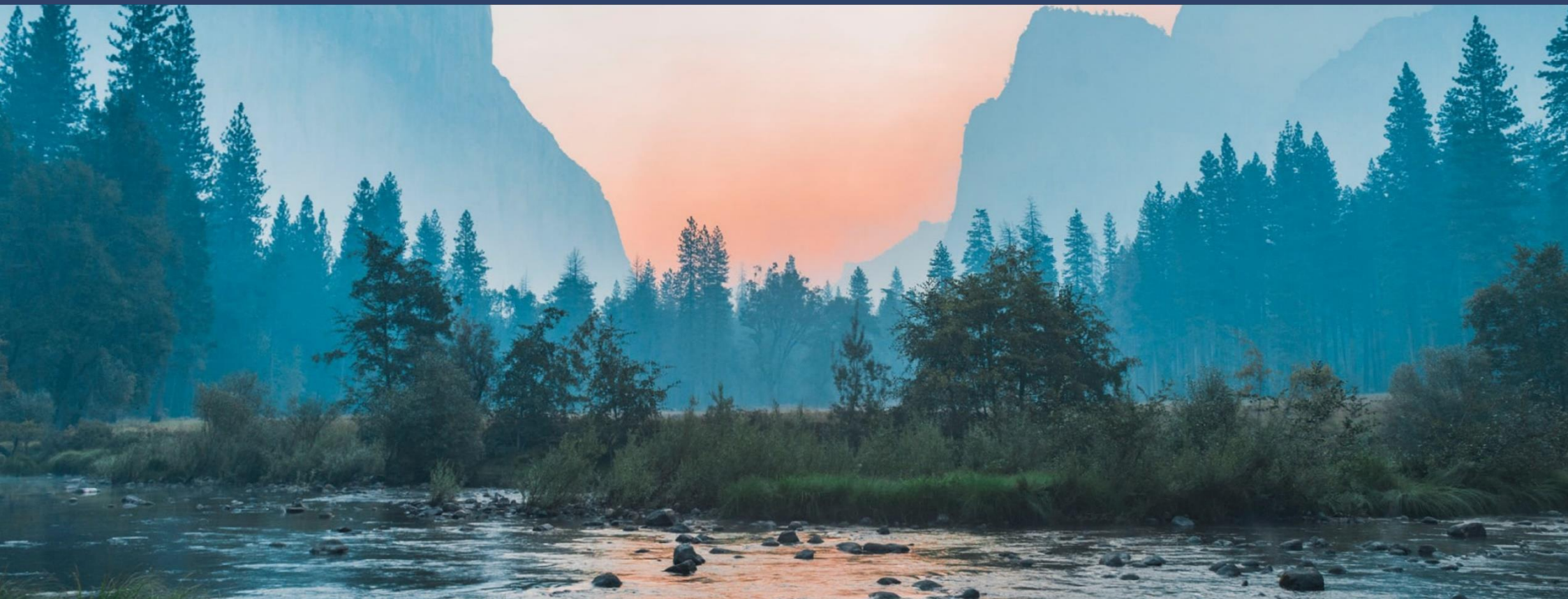
Statement of Investment Principles

For the Threadneedle Pension Plan

Effective from: 23 September 2022



1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustee of the Threadneedle Pension Plan.

It sets out our policies on various matters governing investment decisions for the Threadneedle Pension Plan ("the Plan"), which has a Defined Benefit ("DB") section and a section consisting of Additional Voluntary Contribution arrangements ("AVCs") and Annual Employer Contributions ("AECs").

This SIP replaces the previous SIP dated June 2021.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Plan and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place after any significant change in investment policy and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

We have produced a separate SIP addendum document, which details further background and other matters relevant to the Plan's investments, but which are not required to be included in the SIP.

2. Investment objectives for the DB and AVC and AEC Benefits Sections

2.1 DB Section

The primary objective for the DB Section is to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided. In setting the investment strategy, we first considered the lowest risk asset allocation that we could adopt in relation to the Plan's liabilities. The asset allocation strategy we have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan's liabilities.

2.2 AVC and AEC Benefits Section

Our objective for the AVC and AEC Benefits Section is to invest the assets of the Plan in a prudent manner, to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. We have taken into account members' circumstances, in particular members' attitudes to risk and term to retirement.

3. Investment strategy

3.1 DB Section

With input from our advisers and in consultation with the employer, we reviewed the investment strategy for the DB Section in 2021, considering the objectives described in Section 2.1.

The investment strategy for the **DB Section** is shown in the following table.

Portfolio	Strategic allocation
Growth portfolio	70%
Matching portfolio	30%

We believe that the strategy above meets the objective of the DB Section as set out in Section 2.1.

The Matching portfolio is designed to hedge a portion of the interest rate and inflation risks of the Plan's liabilities. We monitor and review the appropriateness of the target hedge levels, taking into account considerations such as the Plan's funding position.

There is no formal rebalancing policy. We monitor the asset allocation from time to time. If material deviations from the strategic allocation occur, we will consider with our advisers whether it is appropriate to rebalance the assets.

3.2 AVC and AEC Benefits Section

With input from our advisers, we reviewed the investment strategy for the AVC and AEC Benefits Section as part of a wider review of the Plan's AVC arrangements, considering the objectives described in Section 2.2.

We make available a range of investment funds for members with different levels of expected return, including equity and bond based funds as well as a cash fund. Each member is responsible for specifying one or more funds for the investment of their account.

If a member does not choose an investment option, their account will be invested into the **default option**, which is managed as a "lifestyle" strategy (ie it automatically combines investments in proportions that vary according to the time to retirement age). The structure of the default option was chosen so as to try to maximise expected long-term investment returns but to protect against changes in annuity prices as members near retirement.

The lifestyle option is designed to be appropriate for a typical member with a predictable retirement date. However, the lifestyle option may not be suitable for members who unexpectedly retire early or who opt for income drawdown.

4. Considerations in setting the investment arrangements

When deciding how to invest the Plan's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes. The primary way that we manage investment risk is via diversification, ensuring we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. Further details of specific risks (for example equity risk, credit risk and currency risk) and how we measure and manage those risks is set out in Part 2 of the SIP addendum.

4.1 DB Section

In setting the strategy of the DB Section it is our policy to consider:

- the actuarial characteristics of the Plan, in particular the strength of the funding position and the liability profile;
- the size of the Plan and strength of the employer's covenant;
- our investment objectives, including the target return required to meet these;
- the need to consider a full range of asset classes;
- the risks and rewards of a range of alternative asset allocation strategies;
- the suitability of each asset class; and
- the need for appropriate diversification between different asset classes to manage investment risk, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate.

Our policy is to make the assumption that, over the long term, equities and other growth assets will outperform assets such as gilts, which are expected to perform more closely in line with the liabilities ('matching' assets). Hence, we maintain an allocation to both growth and matching assets. We also assume that active fund management can be expected to add value. However, we recognise the potential volatility in growth asset returns, particularly relative to the Plan's liabilities, and the risk that the fund managers do not achieve the targets set.

4.2 AVC and AEC Benefits Section

In determining the investment arrangements for the AVC and AEC Benefits Section it is our policy to consider:

- the overall best interests of members and beneficiaries
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement
- the need for appropriate diversification to manage investment risk within the default option made available to DC members, and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate
- the need for appropriate diversification between and, where appropriate, within the investment options offered to members.

We expect the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. The long term returns on the bond and cash options are expected to be lower than the predominantly equity options. However, bond funds are expected to broadly match the price of annuities, giving some protection in the amount of secured pension for members closer to

retirement. Cash funds will provide protection against changes in short-term capital values and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

We have signed agreements with the investment managers, and a platform provider in respect of the AVC and AEC Benefits Section, setting out the terms on which the portfolios are to be managed. The DC platform provider makes available the range of investment options to members. There is no direct relationship between the Plan and the underlying managers of the DC investment funds.

Details of the investment managers are set out in the separate SIP addendum.

We have limited influence over managers' investment practices because all the Plan's assets are held via pooled funds, but we encourage our managers to improve their practices within the parameters of the fund they are managing.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies. We expect investment managers to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, we would be unlikely to terminate a mandate on short-term performance grounds alone.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover. We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Plan's investment mandates.

6. Realisation of investments

We instruct disinvestments as required for benefit payments and other outgoings. Our preference is for investments that are readily realisable, but we recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid. In general, our policy is to use cashflows to rebalance the assets towards the strategic allocation, and we receive advice from our advisers on disinvestments where appropriate.

For the AVC and AEC Benefits Section our policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

7. Financially material considerations and non-financial matters

We consider how environmental, social, governance ("ESG") considerations (including but not limited to climate change) should be addressed in the selection, retention, and realisation of investments, given the time horizon of the Plan and its members.

In setting the Plan's investment strategy, our primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that ESG factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. We consider this risk by taking advice from our investment adviser when setting the Plan's asset allocation and where possible will behave in line with the Company's Responsible Investment

Corporate Governance and Proxy Voting Principles when selecting managers and when monitoring their performance.

We influence the Plan's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and periodically review how the managers are taking account of these issues in practice.

We have limited influence over managers' investment practices where assets are held in pooled funds, but we encourage our managers to improve their ESG practices within the parameters of their funds.

We do not explicitly take into account the views of members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors") in the selection, retention, and realisation of investments.

8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. Where possible, we will behave in line with the sponsoring employer's Stewardship Principles.

We have delegated to the investment managers the exercise of rights attached to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.

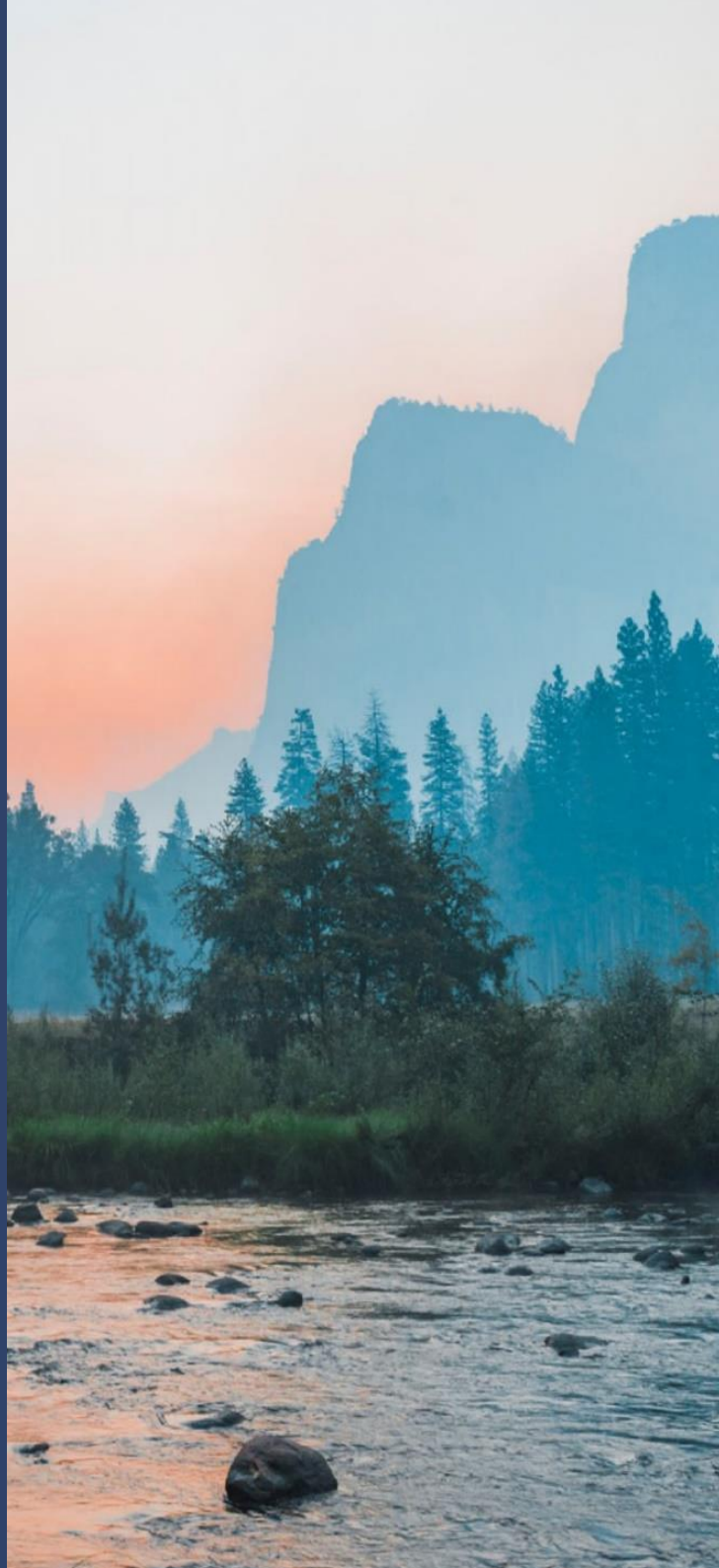
We do not monitor or engage directly with issuers or other holders of debt or equity, but we do engage with current and prospective investment managers on matters including ESG and stewardship. We expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with their policies on stewardship, considering the long-term financial interests of the beneficiaries. We expect the managers to communicate their policies on stewardship to us from time to time and provide us with reporting on the results of their engagement and voting activities regularly and at least once a year.

Addendum to the Statement of Investment Principles

For the Threadneedle Pension Plan

Effective from: 23 September 2022

This addendum to the Statement of Investment Principles ("SIP") for the Threadneedle Pension Plan (the "Plan") has been produced by the Trustee of the Plan. It sets out a description of various matters which are not required to be included in the SIP, but which are relevant to the Plan's investment arrangements.



Part 1:
Investment governance, responsibilities, decision-making and fees

We have decided on the following division of responsibilities and decision making for the Plan. This division is based upon our understanding of the various legal requirements placed upon us and our view that the division of responsibility allows for efficient operation and governance of the Plan overall. Our investment powers are set out within the Plan's governing documentation.

1. Trustee

Our responsibilities include:

- setting the investment strategy, in consultation with the employer
- setting investment policies, including those relating to financially material factors and the exercise of rights and engagement activities in respect of the investments
- putting effective governance arrangements in place and documenting these arrangements in a suitable form
- monitoring, reviewing, and replacing investment managers, investment advisers, actuary, and other service providers
- monitoring the exercise of investment powers that we have delegated to the investment managers and monitoring compliance with Section 36 of the Pensions Act 1995 (as amended)
- communicating with members as appropriate on investment matters, such as our assessment of our effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged
- reviewing the SIP and modifying it as necessary.

2. Platform provider (AVC and AEC Benefits Section)

The investment platform provider will be responsible for:

- providing access to a range of funds managed by various investment managers
- providing us with regular information concerning the management and performance of the assets.

3. Investment managers

The investment managers' responsibilities include:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments
- providing regular information concerning the management and performance of their respective portfolios
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Investment adviser

The investment adviser's responsibilities include:

- for the DB Section, advising on how material changes within the Plan's benefits, membership, and funding position may affect the manner in which the assets should be invested
- for the AVC and AEC Benefits Section, advising on a suitable fund range and default strategy for the Plan, and how material changes to legislation or within the Plan's benefits and membership may impact this

- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations)
- assisting us with reviews of this SIP.

5. Fee structures

The provision of investment management and advisory services to the Plan results in a range of charges to be met, directly or indirectly, by deduction from the Plan's assets. We have agreed terms with the Plan's investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers and platform provider receive fees calculated by reference to the market value of assets under management.

The fee structure used in each case has been selected with regard to existing custom and practice, and our view as to the most appropriate arrangements for the Plan, and we keep the fee structures under review.

6. Performance assessment

We are satisfied that there are adequate resources to support our investment responsibilities, and that we have sufficient expertise to carry out our role effectively. It is our policy to assess the performance of the Plan's investments, investment providers and professional advisers from time to time. We will also periodically assess the effectiveness of our decision-making and investment governance processes and will decide how this may then be reported to members.

7. Working with the sponsoring employer

When reviewing matters regarding the Plan's investment arrangements, such as the SIP, we seek to give due consideration to the employer's perspective. Whilst the requirement to consult does not mean that we need to reach agreement with the employer, we believe that better outcomes will generally be achieved if we work with the employer collaboratively.

Part 2:
Policy towards risk

1. Risk capacity and appetite

Risk capacity is the maximum level of risk that we consider to be appropriate to take in the investment strategy. Risk appetite is how much risk we believe is appropriate to take in order to meet the investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action.

When assessing risk and reviewing the investment strategy, we consider:

- the strength of the employer covenant and how this may change over time
- the agreed journey plan and employer contributions
- the Plan's long-term and shorter-term funding targets
- the Plan's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged
- the Plan's cash flow and target return requirements
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

To be updated once valuation available

Following implementation of the Plan's current investment strategy, as at 31 July 2022, the Plan's 1 year 95% Value at Risk was estimated to be [£ m]. This means that there is estimated to be a 1 in 20 chance that the Plan's funding position will worsen by [£ m] or more, compared to the expected position, over a one year period. When deciding on the current investment strategy, we believed this level of risk to be appropriate given the Plan's objectives.

We will, as appropriate, consider these risks in either a qualitative or quantitative manner – or both – in consultation with our advisers. A formal review is undertaken as part of each formal investment strategy review (normally triennially). In addition, our policy is to monitor, where possible, these risks quarterly.

2. Approach to managing and monitoring risks

There are different types of investment risk that are important to manage, and we monitor these on a regular basis. These include, but are not limited to:

Risk of inadequate returns

For the DB Section, a key objective is that the assets produce a sufficient long-term return in excess of the liabilities, and we have set an appropriate target return for the assets accordingly. There is a risk that the return experienced is not sufficient. This risk has been considered in setting the investment strategy.

In the AVC and AEC Benefits Section, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the default strategy.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type (eg equities), could materially adversely affect the Plan's assets. We believe that the Plan's DB assets and AVC default strategy are adequately diversified between different asset classes and within each asset class, and the AVC options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Plan's investment arrangements.

Equity risk

We believe that equity risk is a rewarded investment risk, over the long term. We consider exposure to equity risk in the context of the Scheme's overall investment strategy and believe that the level of exposure to this risk is appropriate.

Credit risk

The Plan is subject to credit risk because it invests in bonds via pooled funds. This risk is managed by only investing in pooled funds that have a diversified exposure

to different credit issuers, and only invest in bonds that are classified as "investment grade".

Currency risk

Whilst the majority of the currency exposure of the Plan's assets is to Sterling, the Plan is subject to currency risk because some of the Plan's investments are held in overseas markets. We consider the overseas currency exposure in the context of the overall investment strategy, and believe that it diversifies the strategy and is appropriate.

Interest rate and inflation risk

The DB Section's assets are subject to interest rate and inflation risk because some of the Plan's assets are held in Liability Driven Investment ("LDI") funds. However, the interest rate and inflation exposure of the Plan's assets hedges part of the corresponding risks associated with the Plan's liabilities. Given that this should reduce the volatility of the funding level, we believe that it is appropriate to manage exposures to these risks in this manner.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, we receive written professional advice, and we will typically undertake a manager selection exercise. We monitor the investments regularly against their objectives and receive ongoing professional investment advice as to their suitability.

Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). We seek to appoint investment managers who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

Other environmental, social and governance (ESG) risks

ESG factors are sources of risk, which could be financially material over both the short and longer term. These include risks relating to unsustainable or socially harmful business practices, and unsound corporate governance. We seek to appoint investment managers who will manage these risks appropriately, and from time to time review how these risks are being managed in practice.

Illiquidity/marketability risk

For the DB Section, this is the risk that the Plan is unable to realise assets to meet benefit cash flows as they fall due, or that the Plan will become a forced seller of assets in order to meet benefit payments. We are aware of the Plan's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Plan's investments.

For the AVC and AEC Benefits Section, this is the risk that core financial transactions, such as investing members' contributions, are not processed promptly due to lack of liquidity in the investments. We manage this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.

Counterparty risk

This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange.

In particular, the Plan's LDI manager makes use within its pooled LDI funds of derivative and gilt repo contracts and this fund is used to match efficiently a portion of the Plan's liabilities. Counterparty risk is managed within the funds through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.

Collateral adequacy risk

The LDI manager may call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that we are not able to post additional cash to the LDI fund within the required timeframe when requested. A potential consequence of this risk is that the Plan's interest rate and inflation hedging could be reduced and that the Plan's funding level could suffer subsequently as a result. In order to manage this risk, our objective is that the Plan has a sufficient allocation to cash and other highly liquid assets that could be used to meet LDI collateral calls.

Risk from excessive charges

Within the AVC and AEC Benefits Section, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. We are comfortable that the charges applicable to the Plan are in line with market practice and assess regularly whether these represent good value for members.

Other non-investment risks

We recognise that there are other non-investment risks faced by the Plan. We take these into consideration as far as practical in setting the investment arrangements.

Examples for the DB Section include:

- longevity risk (risk that members live, on average, longer than expected); and
- sponsor covenant risk (risk that, for whatever reason, the sponsoring employer is unable to support the Plan as anticipated).

Both investment and non-investment risks can lead to the funding position materially worsening. We regularly review progress against the funding target.

Part 3:
Investment manager arrangements

Details of the investment managers are set out below.

Defined Benefit Section

Columbia Threadneedle Investments ("CTI") – Diversified Growth

The Plan invests in the Dynamic Real Return Fund, a diversified growth fund managed by CTI.

This fund aims to achieve an annualised investment return of Consumer Price Index inflation +4% over a period of 3-5 years.

CTI is responsible for the custody of the assets of the fund. Responsibility is delegated to Citibank NA. The Plan does not have a direct relationship with the custodian.

CTI – Liability-Driven Investment

The Plan invests in liability-driven investment via CTI's range of pooled dynamic 'profile' LDI funds.

These funds are designed to provide a hedge against a typical pension fund's real or nominal liability profile, and they are benchmarked against both gilts-based and swaps-based benchmarks.

CTI is responsible for custody of the assets of the fund. Responsibility is delegated to State Street Bank International GmbH. The Plan does not have a direct relationship with the custodian

CTI – Sterling Liquidity

The Plan invests in CTI's pooled Sterling Liquidity Fund.

This fund's objective is to maintain high levels of liquidity and generate a return in line with money market rates. It is held by the Plan to provide a suitable source of cash to meet capital calls from the LDI funds. The fund is benchmarked against GBP SONIA.

CTI is responsible for custody of the assets of the fund. Responsibility is delegated to State Street Bank International GmbH. The Plan does not have a direct relationship with the custodian

AVC and AEC Benefits Section

Prudential are the providers of AVC arrangements in the Plan. The self-select options available to members are as follows:

- Prudential UK Equity Fund
- Prudential UK Equity Passive Fund
- Prudential Dynamic Global Equity Passive Fund
- Prudential Long-Term Growth Passive
- Prudential Discretionary Fund
- Prudential Dynamic Growth IV
- Prudential Long-Term Bond Fund
- Prudential Long-Term Gilt Passive Fund
- Prudential All Stocks Corporate Bond Fund
- Prudential Dynamic Growth I
- Prudential Dynamic Growth III
- Prudential With-Profits Fund
- Prudential Cash Fund
- Prudential Europe Equity Passive Fund
- Prudential North American Equity Passive Fund
- Threadneedle European Equity Fund

Members are provided with clear information on the investment options and their characteristics, so they can make an informed choice. The funds are priced daily. The funds are open ended and are listed.

Default option

For members that do not make an active choice regarding their investments, the default option is the lifestyle strategy.

The default is structured as a “lifestyle”, which means it follows a pre-set investment strategy. In the strategy there is automated switching to move members’ funds from higher risk/return investments into lower risk/return investments as retirement approaches. The strategy is set out below.