Princes (1977) Pension Scheme

Statement of Investment Principles – September 2023

1. Introduction

The Trustees of the Princes (1977) Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation, including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended).

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. The Trustees' investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the sponsoring company, Princes Limited (the "Company"), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustees' objectives.

In making decisions the Trustees seek professional advice. Following such advice, the Trustees undertake dialogue from which a decision is made. A sub-committee of the Trustees will be convened from time to time to discuss particular issues. The sub-committee has no decision making powers, but can recommend a course of action to the Trustees.

2. Investment and Funding Objectives

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met. To guide them in their strategic management of the assets and to help control the various risks to which the Scheme is exposed, the Trustees have identified the following long term funding objective:

- To target a funding position of 110% on a gilts +0.5% p.a. funding basis (the "lower risk basis") by 2027-2031.

The Trustees acknowledge that the ultimate "end game" objective will be to buy-out the liabilities with an insurance company. In order to achieve this, the Scheme will need to have a funding level surplus on the lower risk basis to cover the expected buyout premium. The target time horizon of 2027-2031 to the ultimate "end game" objective of buyout reflects the fact that there is uncertainty around buyout pricing in the future. The funding level range identified represents a current estimate of the surplus that is likely to be required around 2027-2031 and reflects the expected maturing of the Scheme's membership. This target will be kept under review as part of future strategy review exercises.

The Trustees have sought to achieve this objective by implementing measures to capture potential and sometimes opportunistic improvements in the Scheme's funding level in a timely and affordable way.

There are currently no deficit contributions payable by the Company. The Trustees appreciate that the Company wishes to avoid the need arising for deficit contribution payments being required in the future were the Scheme to fall into deficit on the Technical Provisions basis at a future actuarial valuation date.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in section 10.

3. Process For Choosing Investments

The Trustees believe that the greatest likelihood of achieving their funding and investment objectives and of managing the risks set out in section 4 below, is via a comprehensive risk management framework. This takes the form of a dynamic approach to managing investment strategy, whereby the level of investment risk reduces if the Scheme's funding level improves on the lower risk funding basis.

The investment strategy is reviewed annually. Due to funding level improvements coming through as part of the 2023 review, following investment advice, the Trustees decided to de-risk out of growth assets and move to a 100% liability hedged position. By investing the Scheme's assets in such a manner, the intention is to control funding level volatility while investing in asset classes that may also assist in generating income to help broadly match a proportion of the Scheme's expected liability cash-flow profile.

In this capacity, and subject to agreed restrictions, the Scheme's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE")) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees have identified the following main investment risks:

- The risks that arise through a mismatch between the Scheme's assets and its liabilities. These are mainly the strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:

  - Interest rate risk (the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates)

  - Inflation risk (similar to interest rate risk but concerning inflation)

  - Credit risk (the risk that payments due to corporate bond investors may not be made)

  - Currency risk (the risk that exchange rate movements adversely affect the value of assets denominated in overseas currencies)

- There is a potential solvency risk, i.e. a risk that economic circumstances force the winding-up of the Scheme at a time when asset values are depressed and the Company cannot afford to make good the deficiency. The Trustees therefore monitor the financial strength of the Company and its commitment to the Scheme.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more volatility in the Scheme's funding position. It is felt that this risk is acceptable in view of the potential benefits of the expected extra returns and considering the strength of the sponsor covenant. Meanwhile, the extra returns should work through ultimately to greater security for members of the Scheme.

- The Trustees recognise that even if the Scheme's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.

- The Trustees invest in leveraged LDI funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the matching portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk the Trustees have delegated the asset allocation decisions within the Scheme's investment portfolio to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.

- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.

- To help diversify manager-specific risk, the Trustees expect that the Scheme's assets are managed by appropriate underlying asset managers.

- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Trustees Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 10 sets out how these risks are managed.

- Should there be a material change in the Scheme's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustees decided to implement a comprehensive risk management framework to better manage the risks set out in Section 4. It was agreed that this framework would involve setting rules or funding level triggers to "de-risk" the Scheme's investment strategy over time when it is affordable to do so. Following an extensive review of the available options, in 2013 the Trustees decided to utilise Mercer's Dynamic Derisking Solution ("MDDS") as a framework to implement their de-risking strategy.

At inception of the MDDS arrangements with Mercer, the Scheme had a 50%/50% split between growth and matching assets. Since then, the Scheme has progressed through a number of funding level triggers and gradually de-risked the investment strategy.

Following the 2023 strategy review, it was agreed to remove the target allocation to growth assets and adopt a 100% liability hedged position in order to reflect the material funding level improvements that had been experienced. Therefore, the Scheme is now 100% invested in matching assets.

In agreeing this strategy, the Trustees are looking to protect the Scheme against its ultimate “end game” funding target of buying out with an insurance company and ensure that the cost of securing members’ future benefits is manageable from the Company’s perspective.

The Trustees have delegated full discretion to Mercer to construct and manage a portfolio of bonds and bond-like instruments via its pooled funds, which aim to broadly match the Scheme’s liabilities and mitigate the interest rate and inflation risks listed in Section 4. Within the current portfolio, Mercer utilises gilt funds, corporate bond funds and Liability Driven Investment flexi funds, which invest in gilts and derivatives to achieve a closer hedging of liabilities than could be achieved by using gilts alone. These flexi funds, like the majority of Liability Driven Investment vehicles, use leverage to free up assets and extend the coverage of the liability hedge to better manage risk.

The Trustees will, with Mercer, review the suitability of the prevailing strategy on broadly an annual basis and amend if appropriate.

5.1 Expected Return

Given the current investment strategy adopted, on a “best estimate” basis (as opposed to the Actuary’s more prudent estimate), the Trustees expect to generate a return over the long term (on all of the Scheme’s investments) of c. 0.1% p.a. (net of underlying manager and Mercer fees) above that which would have been achieved had no investment risk been taken within the portfolio (i.e. had the portfolio been invested solely in a portfolio of long dated government debt, which can be used as a proxy for the growth of the Scheme’s liabilities). It is recognised that over the short term performance may deviate significantly from the long term target, and there are no guarantees that such a return will be achieved.

It is recognised that the expected return will vary over time, purely due to changing market conditions and assumptions, with no change to the underlying assets held.

6. Realisation of Investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments

7. Cash Flow Management and Rebalancing Policy

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme’s assets in line with the Scheme’s strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme’s requirements.

As noted, responsibility for monitoring the Scheme’s asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and the Matching portfolio allocations on an ongoing basis. If at any time the actual balance between the Growth and Matching portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

8. Additional Assets

Assets in respect of members' Additional Voluntary Contributions are invested in a range of unit linked funds or With Profits funds managed by Friends Provident, Equitable Life and Clerical Medical.

9. Trustees' policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees' investment strategy outlined in section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustees' own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 10 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

10. ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise any voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's (and the Trustees') thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's and MGIE's investment processes and those of the underlying asset managers in the monitoring process. Mercer and MGIE is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing, where relevant. It is noted that the Trustees' current investment strategy for the defined benefit section of the Scheme is currently invested predominantly in gilts, corporate bonds and cash and therefore the integration of ESG, climate change and stewardship is less relevant given the nature of these assets.

The Trustees also note Mercer's commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer's Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy targets and metrics.

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views are not taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

11. Compliance with this Statement and Reporting Requirements

The Trustees monitor compliance with this Statement on a regular basis. The Trustees undertake to advise Mercer promptly and in writing of any material change to this Statement.

Mercer prepares quarterly reports to the Trustees including:

- Valuation of all investments held for the Scheme.
- Details of how the Scheme's assets are performing relative to the Scheme's liabilities as well as against the benchmarks.
- The Scheme's funding level progression and information regarding the liability hedge over the quarter.
- Any areas where Mercer has concerns with the underlying managers and details about what actions Mercer is under taking to ensure the ongoing appropriateness of each manager.
- Quantitative and qualitative information about the performance of the underlying investment managers with respect to each segment of the portfolio.

In addition, the Trustees can access online, via a portal, the developments of the Scheme's funding level against its targets. This information is updated on a daily basis and a monthly summary is provided.

12. Review of this Statement

The Trustees will review this Statement regularly and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed: ______________________________ Date: __________________

Name: _______________________________

In role as Chair of the Trustee Board for and on behalf of all of the Trustees of the Princes (1977) Pension Scheme