Scottish & Newcastle Pension Plan

Statement of Investment Principles

1. INTRODUCTION

This statement sets out the principles governing decisions about the investment of the assets of the Scottish & Newcastle Pension Plan (the "Plan"). It is issued by Scottish & Newcastle Pension Plan Trustee Ltd (the "Trustee") to comply with the Pensions Act 1995 (the "Act"), as amended by the Pensions Act 2004 and subsequent regulations.

The Trustee has obtained written advice on the content of this statement from the Plan's investment adviser, Isio Group Limited. The Trustee has consulted the Principal Employer, Scottish & Newcastle Ltd (formerly Scottish & Newcastle plc), on the content of this statement.

2. DECISION-MAKING STRUCTURE

Overall investment policy falls into two parts:

1. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by the investment objectives as set out in Section 3 below.

2. The remaining elements of policy are part of the day-to-day management of the assets, which is delegated to professional investment managers and described in Section 5.

The Trustee maintains an Investment Implementation Policy Document ("IIPD"), which contains details of the Plan's investment arrangements.

The Trustee is responsible for ensuring that the long-term allocation of assets is in accordance with the Plan's investment strategy. In its capacity as Trustee of the Plan, the directors have appointed an Investment Committee ("IC") to manage the investments on its behalf. It is the Trustee's policy to monitor the Plan's asset allocation to ensure that it continues to be invested in suitable assets and is adequately diversified.

The Trustee has delegated the choice of investment managers and their investment objectives and restrictions to the Investment Committee. The Trustee will be notified of any changes in the investment managers selected by the Investment Committee at the meeting subsequent to any change. The Trustee will receive regular reports from the Investment Committee, including a summary of investment performance as measured by an independent performance measurement service.

3. STRATEGIC MANAGEMENT

3.1 Investment Objective

The Trustee's willingness to take investment risk is dependent on the Plan's financial position from time to time, on the continuing financial strength of the Company and on its willingness and capacity to contribute appropriately to the Plan. The financial strength and perceived commitment of the Company to the Plan is monitored by the Trustee and the Trustee will review the level of investment risk relative to the liabilities should either of these change.

The Trustee, in consultation with the Principal Employer, has agreed the following key investment objectives:

1) Maximising investment return within an acceptable risk budget with a minimum goal of achieving the average long-term return assumed by the Actuary in his funding assumptions.

2) Avoiding undue volatility in the Principal Employer's contribution rate and the funding level, particularly with the aim that it does not negatively impact the Principal Employer's plans for sustainable growth.

3) Achieving security of benefits in the event of a Plan wind-up.

The Trustee will invest the assets in a manner which is appropriate to the nature and duration of the expected future retirement benefits payable under the Plan and will take account of the security, quality, liquidity and profitability of the portfolio as a whole.

These objectives are not mutually exclusive and in setting any long-term investment strategy the Trustee has to balance achievement of one of these goals against the others.

3.2 Investment Risk

The Trustee recognises a number of risks involved in the investments of the assets of the Plan which are set out below. The time horizon over which these risks are considered, and which the policies below apply, is the period to the time that the Plan is fully funded on a Gilts + 1% basis. This is currently expected to be October 2030. At this point of a fully funded position on a Gilts + 1% basis, the Trustee would be able to adopt a lower risk investment strategy.

(i) Solvency risk and mismatching risk:

This is the general risk (which is the consequence of the combination of other risks listed below) that the change in the value of the assets over time does not keep pace with changes in the value of the liabilities, leading to a deterioration in the funding position and an increased contribution requirement.

- It is measured through a qualitative and quantitative assessment of the potential future development of the liabilities relative to the current and alternative investment policies.

- It is managed through the long-term investment strategy of the Plan and through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

(ii) Manager risk:

This is the risk that the Plan's investment managers underperform their performance targets.

- It is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy.

- It is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager's investment process.

(iii) Liquidity risk:

This is the risk that the Plan is unable to raise cash when it needs to without incurring excessive costs.

- It is measured by the level of cashflow required by the Plan over a specified period relative to the level of cash income from contributions and investments.

- It is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.

- The risk of not being able to raise additional collateral at times of market stress is reduced by investing across a wide range of asset classes and managers. A significant proportion of the Plan's assets deal on a daily basis and can be liquidated at short notice should cash be required.

(iv) Custodian risk:

This is the risk that a custodian defaults or fails in its safekeeping of the Plan's assets (or those of a fund in which the Plan invests) leading to a financial loss to the Plan.

- It is measured by assessing the credit-worthiness of the custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

- It is largely the responsibility of the investment managers of the pooled funds in which the Plan invests. In addition, the Investment Committee will monitor the Plan's custodian's activities.

(v) Concentration risk:

This is the risk of over-exposure to the performance of a single asset which suffers losses relative to the Plan's liabilities.

- It is measured by the level of concentration within and across markets.

- It is managed through diversification within and across portfolios. The Investment Committee undertakes regular reviews of the actual split of the pooled investments held relative to policy, regular assessment of the underlying split of the various pooled funds and the resulting asset split at the total Plan level.

(vi) Collateral risk:

This is the risk that the Plan, or funds within which the Plan invests, fail to meet obligations to provide collateral on derivative transactions.

- It is measured by the level of collateral coverage in periods of market stress and the impact of collateral calls over and above existing collateral assets.

- It is managed by the individual managers where posting of collateral is required. Where instruments that require the posting of collateral are used within pooled funds, it is the responsibility of the manager to monitor and maintain adequate levels of collateral.

- For the Liability-Driven Investment ("LDI") portfolio, the collateral adequacy of the assets held is monitored by the investment manager on a regular basis. Should the level of collateral fall below acceptable levels, and additional collateral is required, the manager will alert the Trustee as soon as reasonably practicable.

- The Investment Committee also monitors the collateral adequacy within LDI portfolio on a quarterly basis via the reports provided by the Plan's investment adviser.

(vii) Counterparty risk:

This is the risk that the Plan suffers a financial loss as a result of the failure of a counterparty to meet its obligations to the Plan (or to a fund in which the Plan invests).

- It is measured by assessing the credit-worthiness of counterparties and the ability of the organisation to post collateral on a daily basis (where required).

- It is managed by requiring the provision of collateral on a daily basis where possible and by using a number of counterparties to limit the exposures to individual organisations.

- The credit-worthiness of the counterparties is monitored by the Plan's managers and the decision to terminate exposure to a counterparty is the responsibility of the manager. The decision to terminate exposure to a particular counterparty will be taken on a case-by-case basis and will take into account the credit-worthiness of the existing counterparty, market conditions, liquidity and the availability of suitable replacement counterparties.

- The ability of the investment manager to "roll" short-term contracts with counterparties is managed by limiting the level of exposure obtained using short-term finance and spreading the dates on which contracts require to be rolled.

(viii) Currency risk:

This is the risk that the Plan suffers a financial loss through exposure to currencies other than sterling.

- It is measured by the potential for future adverse currency movements and the impact on the value of the Plan assets.

- It is managed by diversification of the Plan's overseas assets across a range of currencies and a full currency hedge of developed overseas equity market exposure and fixed income holdings

(ix) Interest rate and inflation risk:

This is the risk that the Plan suffers a financial loss through exposure to interest rate and inflation risks on its liabilities or through exposure to interest rate and inflation risks on its assets which differ from those on the liabilities.

- It is measured by the potential for future adverse interest rate and inflation movements and the impact on the value of the Plan's assets and liabilities.

- It is managed by the liability hedging mandate. The Trustee has a policy in place to reduce interest rate and inflation risk as far as practically possible.

(x) Credit risk:

This is the risk that the Plan suffers a financial loss through exposure to defaults by issuers of corporate bonds and other debt assets which the Plan holds or through reductions in the market values of those assets.

- It is measured by the potential for future adverse movements in the value of the Plan assets resulting from defaults or deterioration in credit market conditions.

- It is managed by diversifying the Plan's investments across a range of credit opportunities and using active management to identify credit risk and avoid defaults.

(xi) Equity risk:

This is the risk that the Plan suffers a financial loss through exposure to equity market assets.

- It is measured by the potential for future adverse equity market movements and the impact on the value of the Plan assets.

- It is managed by diversifying the Plan's investments across a number of alternative assets to reduce the reliance on equity markets. Regional diversification is used to reduce exposure to equity market falls in any particular region.

(xii) Property risk:

This is the risk that the Plan suffers a financial loss through exposure to property market assets.

- It is measured by the potential for future adverse property market movements and the impact on the value of the Plan assets.

- It is managed by investing in low risk property investments with long-term secure tenants and rental streams.

(xiii) Sponsor risk:

This is the risk that the Company is unable to meet the current and potential future contribution requirements of the Plan.

- It is measured by the level of ability and willingness of the Company to support the continuation of the Plan and to make good any current or future deficit.

- It is managed by assessing the interaction between the Plan and the Company's business, as measured by a number of factors, including the credit-worthiness of the Company and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Company.

(xiv) Environmental, Social and Governance risk:

This is the risk that the Plan is exposed to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.

- All ESG-related decisions are currently delegated to the investment managers. ESG considerations will be included as part of the criteria for selecting new investment managers and evaluating managers already present in the Plan's portfolio.

- It is managed by appointing managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion:

    1. Responsible Investment ("RI") Policy / Framework

    2. Implementation of ESG factors in the 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 Plan's investment managers provide annual reports on how they have engaged with issuers/underlying companies regarding ESG issues over the previous year. The Investment Committee receives information from their investment adviser on the investment managers' approaches to engagement. The Investment Committee will seek to engage with investment manager should the manager not act in accordance with their policies and frameworks, or if their policies do not align with the Trustee's policies in this area.

The Trustee's ESG specific investment beliefs are set out in the ESG Policy Statement.

(xv) Stewardship risk:

This is the risk that the Plan's investments lose value over the long term due to poor stewardship of the underlying investments.

- It is managed by delegating voting rights and engagement with underlying investments to the Plan's investment managers, and monitoring their performance in this regard.

3.3 Non-financial matters

Non-financial matters are defined in regulations as the views of Plan members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Plan. The Trustee's policy is that non-financial matters are not taken into account in the selection, retention or realisation of investments.

3.4 Investment Strategy

The Trustee's current investment strategy, taking into account active management, is expected to generate a return of 2.50% p.a. in excess of long-dated gilts (of an appropriate duration) (based on Isio's 30 September 2022 assumptions). The risk and return numbers exclude the impact of both longevity risk to the liabilities and the Plan's longevity hedge, which was introduced in 2015.

The Trustee has a long-term target of getting the Plan to a fully funded position on a Gilts + 1% basis by 2030. The Funding Agreement outlines how the Plan's investment strategy is expected to evolve up until 2030. At this point, a fully funded position on a Gilts + 1% basis, would enable the Trustee to adopt a lower risk investment strategy.

Total Plan

Asset Class	Benchmark %	Benchmark Indices	Outperformance Target
Total Plan	100	Plan's total liability cash flows*	+2.50% per annum**

* Based on the yield of long-dated gilts of an appropriate duration

** The expected return reflects the 2024 max de-risking strategy that has been implemented early. The Funding Agreement requires the expected return to be reduced by 0.25% per annum under max de-risking, which was true at the time of the implementation of the 2024 max de-risking step. Increasing credit spreads seen in 2022 together with adjustments to the strategy required as a result of the wider market changes seen in Q4 2022 have resulted in an increased expected return (recognising the relatively high allocation to Private Markets). The expected return is expected to reduce as legacy Private Market mandates continue to make distributions.

In order to meet this benchmark the Investment Committee has put in place a target allocation split between the various mandates. The target allocation has been put in place in order to achieve the risk and return objectives set out above. The target allocation is detailed in the IIPD and will be subject to the control ranges set out by the Trustee below.

Full details of the rebalancing policy are set out in the IIPD - Schedule D.

Any deviations beyond the agreed control ranges require the prior agreement of the Trustee and the Company (this excludes changes due to market movements during the quarter - see below).

However, to take account of any short to medium term opportunities that may arise, the Investment Committee may allocate up to 5% of the Plan's assets in an asset class/classes other than those defined below, if a quorum of the Investment Committee are in agreement, without gaining prior agreement from the Trustee and Company.

Any Investment Committee decision which changes the asset allocation will have the aim of improving the efficiency of the Plan's investment portfolio within a risk budget agreed in advance with the Trustee. Any decisions which would increase the expected level of risk compared to the pre-agreed risk budget will require prior agreement from the Trustee.

All decisions on tactical implementations and physical rebalancing are based on data as at the most recently available quarter end; no attempt is made to monitor changes in asset allocation due to market movements during the quarter.

Asset Class	**Benchmark %**	**Control Range %**
LDI*	33	23.0 – 43.0
Corporate Bonds	12.5	6.0 – 19.0
Higher Yielding Credit	15	10.0 – 20.0
Long Lease Property	10	7.0 – 13.0
Private Markets**	23.5	0.0 – 26.5
Absolute Return***	0	0.0 – 3.0
Equity****	6	4.0 – 8.0
Other Alternatives	n/a	0.0 – 5.0
Cash*****	n/a	0.0 – 5.0
Total	**100**	

Note: Totals may not sum due to rounding.

* Control range shown reflects the LDI benchmark allocation as a proportion of the Plan's physical assets and is calculated by taking the total assets across the LDI and Synthetic Equity portfolios and deducting the market value of the underlying equity exposure. The Trustee has a hedging target of 100% of liabilities as measured on the Gilts + 1% basis.

** The Private Markets allocation includes an allowance for an investment in a basket of credit-based Exchange Traded Funds (ETFs) managed by BlackRock. The ETFs are being utilised as a short-term home before capital is then deployed into a BlackRock Diversified Private Credit mandate as required. This process is being managed by BlackRock. The current allocation is higher than desired, primarily due to the market conditions seen in Q4 2022. The Trustee views selling Private Market exposure as not practically possible and not being in the Plan's best interests. The allocation is expected to reduce as legacy mandates continue to make distributions, at which point the central allocation can be reduced accordingly. The Trustee undertakes not to make any further allocations to Private Market asset classes beyond those commitments already made.

*** Absolute Return managers may hold residual assets behind, following the termination of their mandates.

**** The strategic allocation to equity above (6%) is achieved synthetically and is equivalent to a physical allocation to equity of the same amount, expressed as a percentage of the total market value of Plan assets. The Trustee's objective is to achieve exposure to a Global Equity Index and this is obtained synthetically using a range of permissible derivatives as set out in the IMA.

***** The cash allocation may be volatile during a transition period; however, any transition will be managed as to avoid keeping a significant proportion of the Plan's assets in cash for prolonged periods.

3.5 Consultation with the Principal Employer

As required by the Pensions Act 1995 and as a matter of good practice, the Trustee has consulted with the Principal Employer concerning the investment arrangements set out above. During the consultation process the Principal Employer expressed the opinion that the Trustee's investment strategy and approach to risk management were consistent with the investment objective stated in 3.1 above.

4. LIABILITY MANAGEMENT

In acting to meet its investment objectives, the Trustee also recognises the risks relating to the liabilities of the Plan and the manner in which they might increase. In order to meet the risk of any such increase the Trustee may, on appropriate advice, enter into such insurance, derivative or other hedging contracts, and provide such collateral, warranties and indemnities as it considers appropriate. In entering into any such arrangement, regard shall be taken to the investment risks set out in 3.2 above.

The Trustee also pays due regard to the restrictions on the use by pension scheme trustees of derivatives contained in the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations"). In particular Section 8 of the Regulations states:

"Investment in derivative instruments may be made only in so far as they –

(a) contribute to a reduction of risks; or

(b) facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk),

and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. "

5. DAY-TO-DAY MANAGEMENT OF THE ASSETS

5.1 Main assets

The Trustee recognises the use of active investment management introduces a risk of underperformance. The Trustee believes that the diversification and number of managers adequately mitigates the active management risk in the current investment management structure.

The Trustee has appointed The Bank of New York Mellon as accounting and performance measurement provider for the Plan. The custodians of the Plan's investments are appointed by the individual investment managers. The custodians are responsible for the safekeeping, monitoring and reconciliation of documentation relating to the ownership of listed investments.

A note of the current managers, and their mandates, is summarised in the Plan's IIPD - Schedule A; this will be maintained by the Investment Committee.

5.2 Leverage

The Plan holds a segregated mandate managed by Insight which invests in derivatives that introduce leverage across both the liability hedging and synthetic equity sub-portfolios. The Trustee is aware that the use of derivatives introduces additional risks such as counterparty risk but believes that there are circumstances in which the use of leverage is appropriate for risk management purposes and in order to ensure efficient deployment of the Plan's capital. The Investment Committee regularly monitors the level of leverage and collateral adequacy to ensure that these remain at appropriate levels.

5.3 Selection, Retention, and Realisation of Assets

The Trustee is notified by the Administrator in advance of regular cash requirements and the Investment Committee determines which assets should be realised to meet these requirements. The Investment Committee has a rebalancing policy, details of which are included in IIPD - Schedule D.

The investment managers have discretion in the selection, retention and realisation of the specific securities for each of their mandates, subject to the liquidity of those investments and the policies set out in Section 3.2 of this statement.

5.4 Investment Benchmark and Fees

The investment benchmark and guidelines for each manager for each of the mandates are summarised in the IIPD - Schedule B. Details of the managers' fees are also included in the IIPD - Schedule C.

5.5 Additional Voluntary Contributions (“AVCs”)

The Trustee has selected a range of funds suitable for AVC investments, as set out in the IIPD - schedule E. Performance of these funds is monitored and the range of funds reviewed and if appropriate amended from time to time.

5.6 Monitoring the Investment Managers’ Performance

The Trustee monitors the progress of the Plan's funding level against its expected development.

On behalf of the Trustee, the Investment Committee 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 IC seeks to engage on these matters with investment managers.

Areas for engagement	**Method for monitoring and engagement**	**Circumstances for additional monitoring and engagement**
Performance, Strategy and Risk	• The IC receives a quarterly performance report from their adviser, which details information on the underlying investments’ performance, strategy and overall risks, which are considered at the relevant IC meeting. • From time to time the Plan’s investment managers are invited, in person, to present to the IC on their performance, strategy and risk exposures.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the IC’s expectations. • Underperformance vs the performance objective over the period that this objective applies.

Environmental, Social, Corporate Governance factors and the exercising of rights	• The Plan's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The IC receives information from their investment advisers on the investment managers' approaches to engagement. • The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustee's policies in this area.

The Trustee will receive regular reports from the Investment Committee summarising the above points.

The Trustee similarly monitors the performance and ongoing suitability of the AVC providers.

5.7 Investment Management Arrangements

The Trustee has the following policies in relation to the investment management arrangements of the Plan.

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• Other than the mandate with Insight, the Plan's investments are in pooled funds. The Trustee has selected pooled funds which help it to align with the strategic return objective. The Trustee does not take any further action to incentivise investment managers to align with the Trustee's policies as this would not be practical for a pooled fund with other investors. • The Trustee has a segregated arrangement with Insight which allows them to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis. • The Plan's investments in the Mesirow, BlackRock Alternative Advisors, Highbridge and M&G mandates are subject to a performance related fee.
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.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee do not incentivise the investment managers to make decisions based on non-financial performance.

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's policies.	• 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. • The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. Additionally, the Trustee monitors the investment managers' performance over each quarter and since the Plan's initial investment in each mandate.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• 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.
The duration of the Plan's arrangements with the investment managers.	• The duration of the arrangements is considered in the context of the type of fund the Plan invests in. o 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 objectives and Plan's liquidity requirements. o For open-ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
Engagement Policy - how the Trustee will engage with investment managers, direct assets and others about 'relevant matters'	• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on its behalf. • The Trustee, via its investment advisers, will engage with managers about 'relevant matters' at least annually • Example stewardship activities that the Trustee has considered are listed below: o Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities o Asset manager engagement and monitoring – on an annual basis, the Trustee assesses the engagement activity of its asset managers. The results of this analysis feeds into the Trustee's investment decision making • Collaborative investor initiatives – the Trustee will consider joining/ supporting collaborative investor initiatives

6. REVIEW OF THIS STATEMENT

The Trustee will review this Statement at least annually and more specifically in response to:

- Legislative and regulatory changes;
- A material change to the Plan's funding level;
- A change in the attitude to risk of the Trustee and the Principal Employer, which they judge to have a bearing on the stated investment policy.
- Any such review will again be based on written, expert investment advice and will be in consultation with the Principal Employer.

For and on behalf of the Scottish & Newcastle Pension Plan Trustee Ltd

August 2006

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