Wiggins Teape Pension Scheme

Statement of Investment Principles – February 2024

1. Introduction

1.1 This Statement has been prepared by the Trustees of the Wiggins Teape Pension Scheme (the "Scheme") in order to record the investment arrangements, and the rationale behind them, adopted by the Trustees of the Scheme.

1.2 This Statement is designed to comply with the requirements of the Pensions Act 1995 as amended by the Pensions Act 2004 (the "Act"), the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Investment Regulations"), and subsequent legislation. It is also intended to fulfil the spirit of the Code of Best Practice (the "Myners Code") published in 2001 and revised in 2008 (DB).

1.3 The employers of the Scheme went into administration or liquidation in early 2019 and, as a result, the Scheme entered into PPF assessment on 31 May 2019. The Trustees expect that the actual benefits that will be paid to members from the Scheme will be greater than PPF benefits but less than the benefits set out in the Trust Deed & Rules.

1.4 As required under the Act, the Trustees have obtained and considered appropriate written advice from the Scheme's investment consultant, Mercer Limited. The Trustees have also consulted with the Principal Employer through its Administrator.

2. Process for Choosing Investments

2.1 The stewardship of the Scheme's investment arrangements may be divided into three main areas of responsibility. The first, the strategic management of the assets, is fundamentally the responsibility of the Trustees and is driven by the investment objectives, as set out in section 3 of this Statement. The second area is the day-to-day management of the assets, which the Trustees have delegated to BlackRock Advisors (UK) Limited ("BlackRock") whose role is described in Appendix 1. The third area is the ongoing measurement and monitoring of the performance of the investment strategy and the investment manager against predetermined benchmarks.

3. Investment Objectives

3.1 The Trustees' principal objective is to invest the Scheme's assets in the best interests of the members and beneficiaries. The Trustees consider that their broad objective is to invest the non-annuity assets such that:

i. An expense reserve, held in cash and a liquidity fund, is maintained that takes account of the level of expenses expected to be paid out of the Scheme over the period to wind-up and is invested accordingly to ensure sufficient funds and liquidity are available to meet future expenses.

ii. The remaining balance is invested in gilts with a duration approximately in line with the section 73 liabilities, with the aim of providing uplifts to member benefits in due course.

3.2 The Trustees have entered into two bulk annuity contracts covering all of the Scheme's benefits. The first contract was completed in November 2015 with Scottish Widows and the second in December 2022 with Just.

4. Risk Management and Measurement

4.1 There are various risks to which the Scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and the cost of uplifting members' insured benefits and expenses.

- 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 expenses and uplift to members' insured benefits as well as producing more short-term volatility in the value of the Scheme's assets. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

- The Trustees also recognise the risks that may arise from a lack of diversification of investments. Subject to managing the risk from a mismatch of assets and the cost of uplifting members' insured benefits and meeting expenses, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio.

- At the total Scheme level investments should be broadly diversified to ensure that there is no concentration of investment with any one issuer. This restriction does not apply to investment in UK Government debt.

- The documents governing the appointment of BlackRock include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. BlackRock is prevented from investing in asset classes outside their mandate without the Trustees' prior consent.

- The Trustees recognise the Scheme's exposure to counterparty risk in the form of the insurers and their ongoing ability to meet the liabilities covered by the bulk annuity contracts.

- The safe custody of the Scheme's assets is delegated to professional custodians.

4.2 Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered, in particular, whether the current risk profile remains appropriate.

5. **Development of the investment strategy**

5.1 The timeline below sets out the recent history of the Scheme's investment strategy, starting in 2014:

- The Trustees' objective had been to obtain a 105% funding position on a self-sufficiency basis (equivalent to being fully invested in gilts). To this end, the assets were invested 25% in growth (including equities and diversified growth funds), and 25% in credit assets with the remainder in gilts. The interest rate and inflation hedge ratio was set at 95% of self-sufficiency liabilities. Overseas equity exposure was 85% currency hedged to reduce the risk to the Scheme of these falling in value due to Sterling appreciation.

- In 2015, a bulk annuity policy was purchased to cover the pensioner liabilities at that time. At the same time, with the agreement of the sponsor the investment strategy was de-risked. This was possible due to funding level improvements. The revised strategy maintained 25% of assets excluding the annuity policy in equities, and the hedge ratio was revised to 100% of insured liabilities (through the bulk annuity), and 83% of non-insured liabilities. All credit exposure was sold.

- In 2017, after review of the hedge against revised liability cashflows from the Actuary, with investment input from Mercer, the hedge was rebalanced to 80% from an interest hedge ratio (against the revised cashflows) of 76% and inflation hedge ratio of 64%. In the same year the Trustees decided with the advice of Mercer to remove some substantial legacy asset-swap positions within the liability hedging portfolio that were contributing to investment risk for limited additional return.

- In 2018, it was found that due to funding level improvements the equity allocation of the non-insured liabilities could be reduced from 25% to 12.5%. This was implemented in July 2018. The Trustees subsequently established that their target level of investment return could be achieved through an investment in corporate bonds rather than through equities.

- A switch from equities to corporate bonds was undertaken in the first half of 2019. On completion, no equities were held, but there was a 50% allocation to corporate bonds. As the Trustees were conscious that buy-out would probably become necessary within a few years, the corporate bonds purchased were of short duration. This meant that the portfolio could be allowed to run off if necessary, within a relatively short time frame. Transfers and collateral adequacy for supporting the hedge were also considered when reviewing these portfolio changes.

- On 31 May 2019 the Scheme entered the PPF assessment period, after the last of the employers became insolvent. The Scheme Actuary advised that, as the Scheme was 140% funded on the PPF basis, it would not fall into the PPF. He advised the Trustees to restructure the benefits to meet the PPF liabilities with the surplus being used to top up the benefits. Mercer advised the Trustees to restructure the hedge to match the expected profile of liabilities following the restructuring of benefits, also taking into account the contribution to the hedge from the existing bulk annuity. This mainly required a significant reduction in the amount of inflation hedging, and this was completed in early July 2019 based on aggregate sensitivities of the new liabilities to interest rates and inflation.

- The Trustees adopted a more refined liability benchmark portfolio in November 2019, and implemented a completion portfolio in December 2019, such that the combination of the Scheme's annuities and the assets managed by BlackRock would provide a close hedge for all the Scheme's liabilities.

- In May 2020, the Trustees instructed BlackRock to transfer approximately £100m cash raised from the Scheme's LDI holdings to the Buy & Maintain Credit Portfolio as the Scheme began to prepare for buy-out by matching more closely the typical portfolio held by an insurer to back its book of annuities. The Buy & Maintain bonds would be longer dated and have the effect of lengthening the portfolio's credit spread linkage, thereby improving the portfolio's alignment with insurer pricing. The target interest rate and inflation hedge ratio was kept at 100% of liabilities on a gilts flat basis.

- In December 2022, a second bulk annuity contract was purchased to cover the remainder of the members' benefits. The remaining residual assets were initially invested in corporate bonds, gilts, derivatives and cash with a reserve held in the Trustee Bank Account in order to meet Plan expenses.

- In May 2023, the corporate bonds were sold and the proceeds invested in fixed gilts and the gilt repurchase agreements either rolled off or were closed out resulting in an investment strategy comprising of fixed gilts, a liquidity fund and cash.

- In November 2023, the Trustees moved the residual assets into a pooled gilt fund composed of BlackRock's 2068 fixed interest gilt fund and sterling liquidity fund. Following this, the Scheme's bespoke fund managed by BlackRock was closed in December 2023.

6. Investment Strategy

6.1 The Scheme's current strategy is to invest in BlackRock's 2068 fixed interest gilt fund, a sterling liquidity fund and cash.

6.2 Details of how this strategy is implemented are provided in Appendix 1.

7. Day-To-Day Management of the Assets

7.1 The Trustees currently delegate all of the day-to-day management of the assets, excluding the bulk annuity contracts, to BlackRock. The Trustees have taken steps to satisfy themselves that BlackRock have the appropriate knowledge and experience to manage the Scheme's investments and that they are carrying out their work competently.

7.2 The Trustees believe that their investment arrangements conform to the requirements of the Occupational Pension Schemes (Investment) Regulations 2005.

7.3 The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointment of BlackRock. Any changes to the investment arrangements would be made with the aim of ensuring that the overall investment strategy is consistent with the investment objectives as set out in section 3 above.

7.4 Details of BlackRock's mandate, including fees, can be found in Appendix 1 and 2.

8. Additional Assets

8.1 The Scheme has available Additional Voluntary Contribution ("AVC") fund options for members who contributed to enhance their retirement benefits. The AVC fund options are available to members who contributed AVCs prior to 1 January 2007. The Trustees believe these to be appropriate options for this purpose, but note that the levels and choice of investment funds rest entirely with the members.

8.2 The Trustees are responsible for monitoring the AVC providers, and take advice from a specialist adviser.

9. Realisation of Investments

9.1 The Trustees' policy is to ensure that the assets invested are sufficiently realisable to enable the Trustees to meet their obligations to provide benefits as they fall due. The Trustees are satisfied that the arrangements in place conform to this policy.

10. ESG, Stewardship, and Climate Change

10.1 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.

10.2 While the Trustees have no formal process for seeking the views of members on ethical considerations or on issues such as social and environmental impact, they will consider views expressed by members provided that they are consistent with the Scheme's investment objectives as set out in Section 3 above. In practice, such issues do not have a high degree of relevance to the current non-insured Scheme investments, which are composed of gilts only.

10.3 The Trustees have given their appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, in accordance with its own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees monitor these issues on a regular basis and document the position at least annually, partly through consideration of Mercer's ESG ratings for BlackRock.

11. Alignment of Asset Manager and Trustees' Policies

11.1 In line with section 7.1 of the SIP, the investment manager has been appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the mandate.

11.2 The Trustees look to Mercer for their forward-looking assessment of whether BlackRock will fulfil their objectives. This view will be based on Mercer's assessment of BlackRock's idea generation, portfolio construction, implementation and business management, in relation to the gilt and liquidity portfolios. Mercer's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of the manager appointment.

11.3 If the investment objectives for their manager changes, the Trustees will review the manager's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

11.4 The Trustees have specified criteria in the investment manager agreement for the asset manager to meet in order to fulfil the Trustees' specific investment requirements. Further information regarding the investment guidelines and restrictions set for BlackRock are detailed in Appendix 1.

12. Portfolio Turnover costs

12.1 Targeted portfolio turnover refers to the frequency within which the assets of the Scheme are expected to be bought or sold. Portfolio turnover means the costs incurred as a result of the buying, selling, lending or borrowing of investments and turnover range means the minimum and maximum frequency within which the assets of the scheme are expected to be bought or sold.

12.2 BlackRock reports on the cost of trades when any rebalancing occurs. Turnover for the Scheme's assets is expected to be very low, and the Trustees will engage with BlackRock if turnover is higher than expected.

13. Compliance with this Statement

13.1 The Trustees monitor compliance with this Statement annually and will obtain written confirmation from BlackRock that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion they have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

14. Review of this Statement

14.1 The Trustees will review this Statement at least once every three years and without delay when there is a significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone whom 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 on behalf of the Trustees of the Wiggins Teape Pension Scheme

Signed: S.P. Hartley Date: 8th May 2024

Name: S.P. Hartley, Director BTL LTD, Trustee

Appendix 1 - Details of the BlackRock mandate

Liability Matching Portfolio

The liability matching portfolio consists of a gilt portfolio and bulk annuity contracts. The gilt portfolio is managed by BlackRock and consists of a single fixed interest UK government bond pooled fund holding. The bulk annuity contracts have been entered into with Scottish Widows and Just.

A key function of the liability matching portfolio is to remove the majority of interest rate and inflation sensitivity mismatch between the assets and the liabilities.

The bulk annuity contracts remove interest rate, inflation and longevity risk in respect of the benefits the contracts cover. The gilt portfolio is used to approximately match movements in the cost of uplifting members' benefits in respect of their final section 73 asset share.

Cash

The cash allocation is made via Blackrock's Institutional Cash Series Sterling Liquidity Fund. This fund seeks to maximise current income consistent with the preservation of principal and liquidity through the maintenance of a portfolio of high-quality short-term money market instruments.

There may also be direct cash holdings.

Manager monitoring

Mercer produces a monthly report, which tracks the month end asset valuations and allocations.

Mercer, on behalf of the Trustees, meet with BlackRock periodically to review the actions of the manager together with the reasons for, and the background behind the investment performance.

If BlackRock does not meet their investment objectives, the Trustees may ask BlackRock to review their fees.

Duration of mandate

The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.

There is no set duration for the appointment of BlackRock. The Trustees will retain BlackRock unless:

- There is a strategic change to the overall strategy that no longer requires exposure to these asset classes or BlackRock e.g. winding up the Scheme;

- BlackRock's appointment has been reviewed and the Trustees have decided to terminate.

Appendix 2 – Investment manager and investment adviser fee structures

Applicable to the BlackRock portfolio:

On First GBP 15 million at 0.08% p.a.

On Next GBP 85 million at 0.04% p.a.

Thereafter 0.03% p.a.

Subject to a minimum fee of GBP 3,750 per quarter.

Investment Consultant Fees

Mercer is remunerated on a time-cost basis.