

RECTICEL RETIREMENT BENEFITS SCHEME ("THE SCHEME") STATEMENT OF INVESTMENT PRINCIPLES ("SIP") AS AT 20 JUNE 2024

INVESTMENT OBJECTIVES

The Trustees aim to invest the assets of the Scheme prudently in a portfolio comprising solely matching assets which will provide hedging against fluctuations in the solvency liability of the Scheme, so as to maintain the affordability of buyout, towards which outcome the Trustees and Sponsoring Employer are actively working, and which the Sponsoring Employer has agreed to fund.

The Trustees have consulted the Sponsoring Employer when setting their investment objectives, and when preparing this SIP.

INVESTMENT STRATEGY

The Trustees' investment strategy to achieve their investment objective is to obtain professional advice from their investment adviser to design a suitable investment portfolio based on the Scheme's liabilities, and to review the portfolio, as a minimum, after each triennial valuation of the Scheme's liabilities.

The current asset allocation model for the Scheme's matching assets comprises fixed-rate (31%) and index-linked (51%) gilts, and corporate bonds (18%) of various durations, and is designed based on the structure of the Scheme's liabilities.

TRUSTEES' POLICIES

Section 36 Pensions Act 1995

The Trustees' secure compliance with the requirements of section 36 of the Pensions Act 1995 by appointing a suitably-qualified investment adviser, and obtaining appropriate advice from the investment adviser during the triennial valuation of the Scheme's liabilities, in connection with significant decisions of the Trustees, and in response to market or Scheme circumstances that indicate that professional investment advice should be sought.

Kinds of investments to be held

The Trustees' current policy is to invest only in unitised funds, managed by mainstream fund managers recommended by their investment adviser, in such asset classes as recommended by their investment adviser and fund managers as appropriate to meeting their investment objectives.

Balance between different kinds of investment

The Trustees are guided by their investment adviser as to the appropriate balance between different kinds of investment, and as to an appropriate degree of diversification. Given the current investment objective and strategy, the design of the asset allocation model has been delegated to the fund manager concerned, and is limited to respective allocations to different classes of bond via unitised funds.

Risks

The principal risks faced by the Trustees are those which are most likely to jeopardise their objective of securing Scheme benefits via a buy-out, in particular that buy-out becomes significantly less affordable because the level or quality of the match of assets to liabilities is insufficient, or because of an increase in liabilities owing to fluctuations in factors which cannot be hedged; and that the Sponsoring Employer becomes unable or unwilling to fund any remaining deficit to buy-out.

The trustees measure these risks by monitoring the estimated solvency liability and by monitoring the financial performance of the Sponsoring Employer and Group. They are managed by periodic review of the asset allocation model against more recent liability data, through ongoing contributions from the Sponsoring Employer, and by holding a S75 guarantee from the ultimate parent of the Sponsoring Employer.

Expected return on investments

In circumstances where the Trustees' investment strategy is intended to achieve a rate of return in excess of a lowest risk portfolio, it is their policy to set a target rate of return, and to calculate the expected rate of return of their planned asset allocation strategy. Since the Trustees currently hold only liability-matching investments, they are not targeting a particular rate of return, and have not calculated an expected rate of return of their current asset allocation model.

Realisation of investments

Since they hold only indirect investments through mainstream pooled investment vehicles, the Trustees have delegated the their fund managers all decisions as to the realisation of the underlying investments. Realisation of investments in these unitised funds is limited to rebalancing of the portfolio toward any target weighting the Trustees have specified, implementing any change of investment strategy, and realising funds required for the day-to-day running of the Scheme.

Environmental, social and governance ("ESG") and other financially material considerations

Since they hold only indirect investments through mainstream pooled investment vehicles, the Trustees' ESG policies are limited to the expectation that their selected fund managers take proper account of such considerations in their selection, retention and realisation of the underlying investments, in accordance with industry good practice.

Non-financial matters

Since they hold only indirect investments through mainstream pooled investment vehicles, the Trustees do not actively seek the views of Scheme members concerning non-financial aspects of the fund managers' choice of underlying investments, such as ethical considerations or social and environmental impact; they therefore do not take such views into account. However, they expect the fund managers to take proper account of such considerations, in accordance with industry good practice.

Engagement activities and exercise of rights

Since they hold only indirect investments through mainstream pooled investment vehicles, the Trustees' policy is not generally to intervene directly in the fund managers' exercise of rights, including voting rights, attaching to the underlying investments, or in the fund managers' engagement activities. The Trustees do not envisage normal circumstances in which they would engage directly with relevant persons, and would therefore do so only if, in extreme cases, they considered this to be necessary. Nevertheless, they expect the fund managers to exercise voting and other rights, and to engage with investee companies, with the aim of protecting the value of assets and in accordance with the principles of good governance.

Arrangements with asset managers

Since the Scheme is a small passive investor in the context of the type of fund and fund manager currently selected, the Trustees' do not consider that their individual arrangement directly incentivises the fund managers to align their investment strategies and decisions with the Trustees' policies. Similarly, the fund managers are incentivised not by their arrangement with the Trustees, but by their reputations as major institutional investors, to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

The Trustees' regular review of statements from fund managers ensures that units remain invested in the selected funds, and that additional investments or disinvestments are made in accordance with the Trustees' instructions. Wider evaluation of the fund managers' performance, including the level of turnover portfolio costs and other fees is achieved through quarterly monitoring by the Trustees' investment adviser.

The arrangements with fund managers are not contractually time-limited.