Matthew Algie and Company Limited Pension & Assurance Scheme

Statement of Investment Principles

Background

This Investment Statement sets out the principles governing decisions about investments for the Matthew Algie and Company Limited Pension & Assurance Scheme ("the Scheme") to meet the requirements of The Pensions Act 1995, as amended by the Pensions Act 2004, The Occupational Pension Schemes (Investment) Regulations 2005 and other subsequent amendments. It is subject to periodic review by the Trustee at least every three years and more frequently as appropriate.

The Scheme's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

In preparing this Statement, the Trustee has consulted with the principal employer (Matthew Algie & Company Limited) and has taken professional advice from their Investment Consultant (Isio Group Limited/Isio Services Limited ('Isio')).

Governance

The Trustee of the Scheme makes all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee's investment advisers, Isio, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

Investment objective

The Scheme closed to new entrants and future benefit accrual on 31 August 2010.

The primary objective of the Scheme is to provide pension and lump sum benefits for the current members on their retirement, and/or benefits on death, before or after retirement for their dependents, on a defined benefit basis.

The Scheme's present investment objective is to achieve a return of around 2.4% p.a. (based on Isio's central assumptions as at 30 June 2023) above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities). Further detail on the expected return on investments is provided in the Appendix A.

The Trustee's medium term objective is to reach and maintain a funding position of 100% of technical provisions – such a target being consistent with the strength of the employer covenant and the Trustee's investment risk tolerance.

The Trustee and Company agreed a long term funding objective of reaching full funding on a Gilts plus 0.5% basis by 2028. The Trustee intends to reduce risk as funding improves to increase the certainty of achieving this objective. In terms of the ultimate objective for the Scheme, the Trustee and Company continue to target securing all Members' benefits within an insurance contract (i.e. reach full funding on an insurance buy-out basis). The Trustee also considers the Scheme's funding position on other relevant bases for valuation and accounting. Funding positions are monitored regularly by the Trustee and formally reviewed at each triennial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustee takes a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.

The Scheme's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Scheme consist predominantly of investments which are traded on regulated markets.

Leverage and collateral management

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. Further details on this can be found in Appendix D.

The Trustee has a stated collateral management policy / framework. The Trustee has agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustee will review and stress test this framework on a regular basis.

Investment Management Arrangements

At present, three investment managers have been appointed to manage the assets of the Scheme as listed in the SIP. The investment managers are regulated under the Financial Services and Markets Act 2000.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment managers.

Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavoring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment managers' own policies on socially responsible investment. The Trustee will assess that these correspond with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account when considering whether to select or retain an investment.

Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment managers on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members of the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate. The Trustee will engage, via their investment consultant, with investment managers about 'relevant matters', including the Scheme's stewardship priorities, at least annually.

The Trustee also expects the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment manager's policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee 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 Trustee receives a quarterly investment performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.	• 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 Trustee'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 Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues (including those concerning capital structure and conflicts of interest). • The Trustee receives information from their investment adviser on the investment managers' approaches to engagement.	• 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.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Realisation of investments

The Trustee operates a bank account for daily cash flow needs.

The significant majority of the Scheme's investments may be realised quickly if required.

Additional voluntary contributions (AVCs)

Assets in respect of member's AVCs are held with LGIM in investment vehicles chosen by the Trustee. These vehicles have been closed to new contributions since 1 June 2006.

Agreed as final version on behalf Dalriada Trustees Limited as the Trustee of the Matthew Algie and Company Limited Pension & Assurance Scheme.

Date: September 2023

Date of Amendments
First Amendment: June 2004
Second Amendment: February 2008
Third Amendment: February 2016
Fourth Amendment: September 2019
Fifth Amendment: September 2020
Sixth Amendment: September 2023

Appendix A

Asset split by asset class (as at 30 June 2023)

Investment Manager	Asset Class	Strategic Benchmark (%)	Expected Return[1] (%)
LGIM	Global Equity	10.0	4.0
	Long Lease Property	10.0	2.5
	Diversified Growth	10.0	3.5
	Liability Driven Investment	38.0	0.0
JP Morgan	Diversified Credit	15.0	1.5
Partners Group	Direct Lending	17.0	4.2
	Total	**100.0**	**2.4**

[1] Expected return assumptions quoted relative to Gilts and based on Isio's central assumptions as at 30 June 2023.

Appendix B – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	**Definition**	**Policy**
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.80% of the impact of interest rate and inflation movements on the value of the Scheme's liabilities (measured on a technical provisions basis)
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.

		To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via 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 Trustee monitors the managers on an ongoing basis. The Trustee considers ESG issues as part of the investment process, and believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income. Hedge c. 50% of currency risk on equities.
Non-financial matters	The views of the members including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix C - Policy on Investment Manager Arrangements

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. • The Trustee believes the annual fee paid to the fund managers incentivises them to stick to the fund objective, which is used to reflect the investment strategy.
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 does 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 Scheme'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. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
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 Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. • The Trustee does not believe in setting a portfolio turnover target – being the frequency with which the assets are expected to be bought/sold – because each investment manager's style differs in terms of level of frequent active management, and therefore turnover, involved. The Trustee believes transaction costs should be monitored indirectly as one aspect of a holistic approach to overall manager performance assessment.

The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme 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's objectives and Scheme'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.
Voting policy – How the Trustee expects investment managers to vote on its behalf.	• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
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 Scheme's investment managers on their behalf. • The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Appendix D

Collateral management policy

At the time of writing, the Trustee is targeting a level of collateral sufficient to withstand a yield rise of:

- 350bps held with the LDI manager

The Trustee will review this no less frequently than annually, or as soon as possible in the event of significant market movements.
The Trustee also adopts a framework for maintaining sufficient collateral levels.

Trigger	Action	Responsibility
LDI fund issues capital call	Assets sold from below collateral waterfall to meet capital call	LDI manager / Trustee
When collateral falls below 300 bps	Assets sold from below collateral waterfall to restore buffer to 350 bps	LDI manager responsible for monitoring trigger, Trustee responsible for implementation (within 5 business days)

The latest collateral waterfall is set out below. Assets held within the immediate collateral framework with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustee.

Manager	Asset Class	Dealing frequency
LDI manager	**Over 5 Year Index-Linked Gilt Fund**	**Weekly frequency**
Non-LDI manager	Diversified Credit	Daily frequency
LDI manager	Diversified Growth	Weekly frequency
LDI manager	Equity	Weekly frequency