St. Modwen Pension Scheme

Statement of Investment Principles

September 2024

Statement of Investment Principles

The Trustee of the St. Modwen Pension Scheme ("the Scheme") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995[1] ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005, as well as the principles recommended by the Myners Code.

It supercedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Benefit ("DB") liabilities and Defined Contribution ("DC") assets.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy.

Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Scheme's Investment Consultant, XPS, who is suitably qualified through ability and experience and has appropriate knowledge;
- Consulted the Employer.

Choosing investments

The Trustee sets the investment strategy and investment policies for the Scheme.

The Trustee has considered the Scheme's liabilities and strength of Employer covenant when setting the investment strategy and policies.

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over all decisions made about the investments in which the Scheme invests.

Where Investment Managers are delegated discretion under Section 34 of the Act, the Investment Manager will exercise their investment powers in accordance with the Act, relevant and subsequent regulations, and this SIP.

The Trustee relies on the Investment Managers to appoint appropriate Custodians for pooled funds who are responsible for the safekeeping of the assets of the Scheme.

The Trustee relies on the Investment Managers to appoint appropriate Administrators or Registrars for pooled funds who are responsible for keeping records of the Scheme's entitlement within the pooled funds.

[1] *As amended 30th November 2018*

Investment objective and strategy (DB Section)

Investment objective

The Trustee has set the following objective:

- To maintain a fully funded position on a low-risk Solvency basis using a discount rate of gilts + 0.06% p.a and to maximise the probability of the Scheme being able to afford to buy-in by minimising liability-related and price-related risks.
- To implement an investment strategy targeting a return of 1.0% p.a. in excess of gilts, where gilts are represented by the yield on the FTSE Actuaries Over 15 Year Gilt Index.
- To acquire suitable assets to achieve the above objective whilst controlling volatility and the long-term costs of the Scheme. Given the profile of the liabilities, the Trustee's investment time horizon is long-term. However, it is recognised that any transfer of liabilities to an insurer could reduce this time horizon significantly.
- To ensure that the Scheme's assets have sufficiently liquidity and meet benefit payments as they fall due.
- To adhere to the provisions contained within this SIP.

Investment strategy

The Trustee intends to meet the investment objective by investing in the liability-matching assets some of which also provide a return in excess of gilts.

The Trustee can utilise a range of passively and actively managed investments, including (but not limited to):

- Assets or funds primarily utilised to match liability risk (typically movements in long-term interest rates and inflation) including gilts, swaps and repos and the use of derivatives and leverage.
- Assets or funds primarily used to outperform the liabilities over the long term including equity, private markets, hedge funds, commodities, currency, bonds and other forms of credit, property, infrastructure and insurance including the use of derivatives and leverage.
- Assets or funds primarily used to provide immediate liquidity such as cash or cash instruments.
- Assets or funds that combine liability outperformance, liability hedging or liquidity characteristics including the use of derivatives and leverage.
- Annuity or insurance policies designed to match the specific characteristics of the Scheme's liabilities or membership.

The actual strategy adopted for the DB Section of the Scheme, including the allocation to different assets, and expected returns is set out in the Appendix.

Investment objective and strategy (DC Section)

Investment objective

The Trustee has set the following objectives:

- To ensure members are given an appropriate range of investment options and guidance on the suitability of those options.
- To give members investment options that enable them to maximise their returns at acceptable levels of risk.
- To ensure members' funds represent appropriate value for money; this may include looking at areas such as performance, volatility of returns, transaction costs and management charges incurred. The Trustee will assess the value for money on a regular basis and understand the contributing factors.
- To ensure that members' invested funds make allowance for change in risk preference as members approach retirement.
- To ensure that any core financial transactions undertaken by the administrator are completed accurately, promptly and effectively.
- To provide flexible investment choices to members and ensure that members are able to switch their investment choices easily.
- To ensure that members have access to enough information about the investment options available and the process of switching investment choices, to enable them to make informed decisions about their investment choices and to understand the potential impact of those decisions on their pension savings.
- To adhere to the provisions contained within this SIP.
- To adhere to the Pension Regulator's DC code and DC regulatory guidance.

Investment strategy

The Trustee intends to meet the investment objective by:

- Providing members with an appropriate range of investment options to enable them to reasonably expect to meet their retirement aspirations, together with guidance on those options, allowing members to make informed decisions on their pension savings. This will include a range of different choices with different return and risk characteristics.
- Providing a Default Lifestyle Option that automatically switches from investments with higher expected returns to investments with lower expected volatility as the member approaches retirement.
- Periodically reviewing the structure of the DC Section and the funds made available to members.
- Regularly reviewing the performance and charging structure of funds available, as well as the value for money of available funds.

The actual strategy adopted for the DC Section of the Scheme is set out in the Appendix.

Policy on illiquid investments

The Trustee is required by regulations to ensure that it has considered all investment opportunities available to achieve best value for the Scheme's members. This includes investment in illiquid assets such as private equity, infrastructure and real estate.

L&G currently invest a portion of members' funds in illiquid assets. Investment is made indirectly, via a private credit fund called the Short-Term Alternative Finance Fund. L&G also invest a small portion of members' funds in private credit and infrastructure assets via the Retirement Income Multi-Asset Fund. Both funds are used in all vintages. Both funds are used to help de-risk the investments as members move towards retirement and are therefore not held as part of the growth phase. L&G vary the amounts held in these funds for different vintages and member ages but for the 2055-2060 vintage at-retirement c.12% is allocated to the Short-Term Alternative Finance Fund and c.47% to the Retirement Income Multi-Asset Fund.

The Trustee is aware that L&G are looking to introduce a further allocation to illiquid assets (including real estate, infrastructure, sustainable resources, private equity and private credit) for members in the growth phase, impacting members who are furthest from their retirement age.

The Trustee appreciates that illiquid assets are expected to bring certain benefits to members including diversification, return enhancement and inflation protection. However, these assets can have reduced liquidity, higher complexity and higher fees. The Trustee believes these advantages can outweigh the disadvantages but has delegated decisions around allocation to illiquid assets to L&G. The Trustee acknowledges that L&G are signatories to the Mansion House Compact where the aim is to allocate a minimum of 5% of the default investment strategy to unlisted equities by 2030.

Investment restrictions

The Trustee intends to adhere to the following restrictions:

- Whilst borrowing on a temporary basis is permitted, this option will only be utilised where absolutely necessary or where it is expected to reduce overall risk (e.g. for very short time periods during an asset transfer).
- Investment in derivative instruments may only be made where they contribute to risk reduction or facilitate efficient portfolio management.
- Stock lending is permitted at the discretion of the Scheme's Investment Managers in line with their overall investment objectives, policies and procedures.

Investment risk

The Trustee has identified a number of risks including (but not limited to):

- **Employer covenant risk and self-investment risk**
- **Liability risks**: Interest rate risk, Inflation risk, Longevity risk
- **Asset risks**: Currency risk, Credit risk, Interest rate risk, Inflation risk, Market risk
- **Strategy risks**: Asset allocation risk, Liquidity risk (including collateral risk), Growth asset risk (including currency risk)
- **Implementation risks**: Investment manager risk, Counterparty risk, Operational risk

These risks are measured and managed by the Trustee as follows:

- The Trustee has set an investment strategy that adheres to the contents of this SIP.
- The Trustee receives strategic investment advice from the Investment Consultant that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.
- The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Consultant, as well as advice from the latter.
- The Trustee periodically assess the strength of the Employer covenant and uses external expertise where appropriate.
- The Trustee delegates the day-to-day management of some of these risks to the appointed Investment Managers.
- The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.
- The Trustee utilises custodian relationships to ensure Scheme assets are held securely.
- The Trustee assesses whether appropriate controls are put in place by themselves, the Investment Consultant, Investment Managers and Custodians (where there is a direct relationship).

There are a number of non-financial risks that may impact the Scheme. The Trustee may consider these risks when appropriate.

Realising investments

The Trustee recognises that assets may need to be realised to meet Scheme obligations at any time.

The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.

The Trustee will from time to time agree a policy for sourcing cash from the investments as required. Further details are set out in the Appendix.

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 endeavouring 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 manager's own policies on socially responsible investment. The Trustee will assess that these corresponds 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' processes, it will take this into account on whether to select or retain an investment.

Non-Financially Material Considerations

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

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 manager 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, where practical to do so, as the Trustee believes this will be beneficial to the financial interests of members over 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 also expects the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not deemed to be appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' 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.

Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

Investment manager arrangements

- **Incentives to align investment managers' investment strategy and decisions with the trustees' policies**

The Scheme invests in pooled funds and so the Trustee acknowledges that the investment manager's investment strategies and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy. Investment managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as investment managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

- **Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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 Trustee selects investment managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying companies in which they invest.

The Trustee also considers the managers voting and ESG policies and how they engage with the underlying companies as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as it believes this can improve long term performance. The Trustee expects investment managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but does expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the fund managers incentivises them to do this.

If the Trustee feels that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate the involvement of an investment manager.

- **How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's ' policies**

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered. The regular reporting also looks at performance over the previous quarter, 12 month and 3 year periods.

The fund managers' remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies and fees applying for similar asset classes and fund types.

- **How the Trustee monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range**

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and targeted portfolio turnover to their investment consultant.

- **The duration of the arrangement with the asset manager**

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

Signed on behalf of the Trustee:

Signature: [redacted]

Name: Marcin Balawender

Date: 26 September 2024

Appendix 1 – DB Section Investment strategy

Overall strategy

The investment strategy of the DB Section of the Scheme is summarised in the table below.

Asset class	Strategic allocation	Manager and fund	Objective	AMC (pa)
Corporate Bonds	50%	LGIM Buy & Maintain CreditFund	To capture the credit risk premium from Investment Grade bonds and provide hedging against interest rate changes	0.15%
LDI and Cash	50%	Legal & General Matching Plus and Single Stock Gilt fund ranges	Provide leveraged exposure to changes in real and fixed interestrates with the aim of liability matching.	0.10% - 0.18%
		LGIM Sterling Liquidity Fund	To provide diversified exposure and a competitive return in relation to 7 Day LIBID	0.125%
Total	**100%**			

In addition to the above assets, LGIM charge a flat fee of £1,000 + VAT for the Scheme as a whole plus a minimum free of £15,000 p.a. for the Enhanced Service.

Liability hedging

This strategy is designed to achieve liability hedging of:

- 100% of the interest rate risk of the funded liabilities (equivalent to c.111% of total liabilities), as measured under the Technical Provisions basis, and
- 100% of the inflation risk of the funded liabilities (equivalent to c.111% of total liabilities), as measured under the Technical Provisions basis

Rebalancing investments

The Scheme does not have any formal rebalancing arrangements in place.

Instead the Trustee will review the allocation quarterly, and instruct the Investment Managers to rebalance the allocation on the advice of the investment consultant.

Realising investments

Where assets need to be realised, the Trustee will consult with the Investment Consultant regarding the source and timing of disinvestments.

Appendix 2 – DC Section Investment strategy

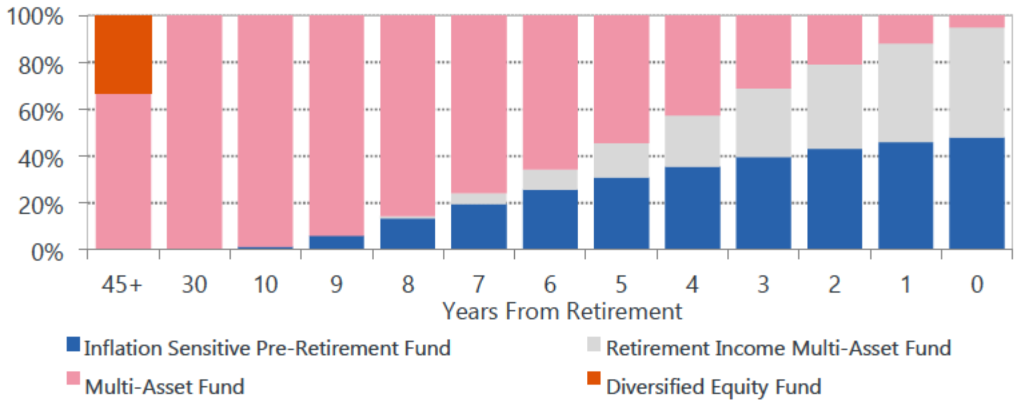
The Trustee assessed the suitability of the default strategy, lifestyle strategies and the self-selection options for the DC section in 2018.

In doing so, the Trustee considered the profile of the membership, their likely investment preferences as well as reviewing if the funds provided good value for money to members, as defined by the Trustee.

As part of this review the Trustee conducted a member survey, the results of which were incorporated into the Trustee's thinking. The outcome of this review included providing a specific ethical and sustainable investment option for members to select, if they so wish.

Default Flexible Withdrawals Option

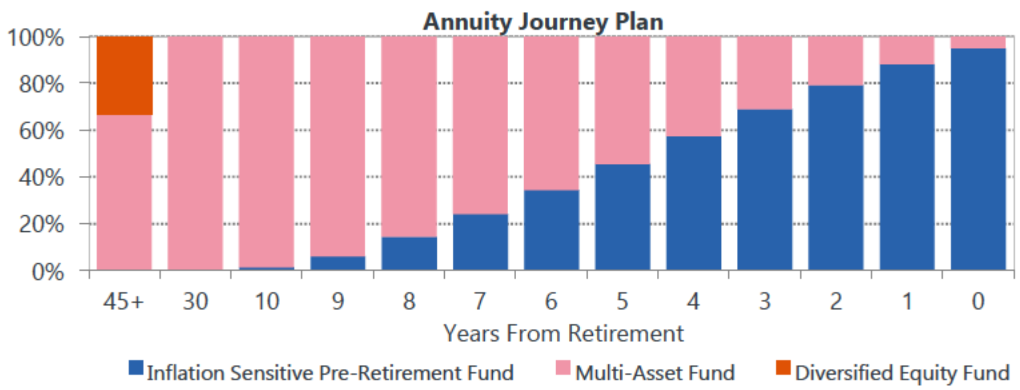
The Trustee offers a default strategy which comprises of a number of funds, which gradually transition from a growth portfolio, which targets long-term capital growth, to a less risky and more conservative approach as members approach retirement. The Default Lifestyle Option of the DC Section of the Scheme is summarised in the chart below.

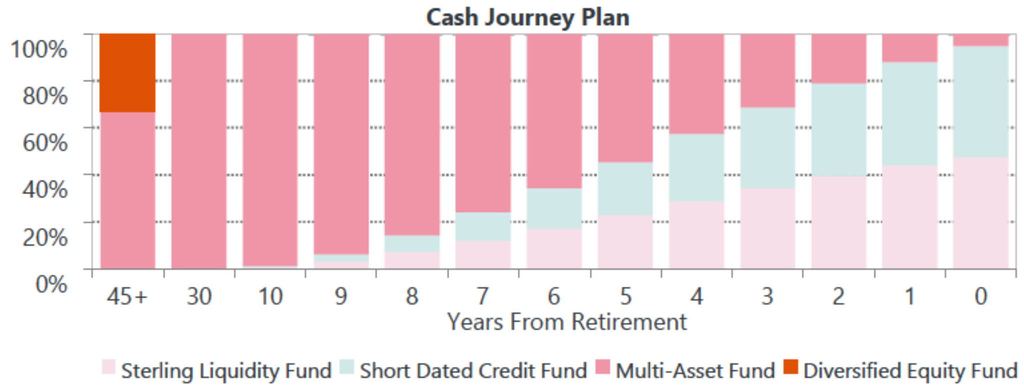


The default lifestyle strategy incurs a total management charge of 0.18% pa, including additional expenses the total charges are 0.54%. The difference is due to the administration charges that are incurred by LGIM, such as the process of automatically switching the units over time, as members approach retirement.

Other Journey Plans

The Trustee offers two alternative journey plan options to the default that may be better suited to some member's needs. The annuity journey plan is suitable for members planning to use their pension savings to purchase an annuity at retirement and the cash journey plan is suitable for members planning to take their pension savings at cash upon retirement.




Cash Journey Plan
100%
80%
60%
40%
20%
0%
45+
30
10
9
8
7
6
5
4
3
2
1
0
Years From Retirement
Sterling Liquidity Fund
Short Dated Credit Fund
Multi-Asset Fund
Diversified Equity Fund

Self Select Funds

Individual members may elect to follow their own investment strategy by investing in a range of funds. The Trustee has made thefollowing funds available to members:

Asset class	Manager and fund	Fund	Objective	OCF (pa)
Equities				
Global Equities	Legal & General	Global Equity (30:70) Index Fund – 75% GBP Hedged	Capture the total returns of the UK and overseas equity markets.	0.14%
Global Equities	Legal & General	World (ex UK) Equity Index Fund	Capture the total returns of world equity markets, excluding the UK.	0.12%
UK Equities	Legal & General	UK Equity Index Fund	Capture the total returns of UK listed companies.	0.10%
Emerging Market Equities	Legal & General	World Emerging Markets Equity Index Fund	Capture the total returns of emerging equity markets.	0.25%
Global Equities	F&C	Responsible Global Equity Fund	Capture the total returns of global equities that have a strong ESG Focus	0.85%
Multi-Asset				
Multi-Asset	Legal & General	Multi-Asset Fund	Provide long term returns that have less volatility than equities by investing in a range of asset classes	0.13%
Credit				
Corporate Bonds	M&G	PP All Stocks Corporate Bond Fund	Provide low risk returns from high quality short and long dated corporate debt	0.36%
UK Government bonds	Legal & General	Over 15 Year Gilts Index Fund	Track the sterling total returns of the FTSE A Government (Over 15 Year) Index.	0.08%
UK Government bonds	Legal & General	Over 5 Year Index-Linked Gilts Index Fund	Track the sterling total returns of the FTSE A Index-linked (Over 5 Year) Index.	0.08%
Property				
Property	Legal & General	Property Fund	Provide long term returns through a combination of income and growth from commercial property investments	1.09%
Cash				
Cash	Legal & General	Cash Fund	To provide capital protection with growth at short term interest rates.	0.10%