

## **Purmo Group UK Pension Scheme – Defined Benefit Section**

### **Statement of Investment Principles (“SIP”)**

#### **Purpose of this Statement**

This SIP has been prepared by the Trustee of the Purmo Group UK Pension Scheme (the “Scheme”). This statement sets out the principles governing the Trustee’s decisions to invest the assets of the Scheme.

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.

Details on the Scheme’s investment arrangements are set out in the Investment Implementation Document (“IID”).

#### **Investment objectives**

The Trustee invests the assets of the Scheme with the aim of ensuring that all members’ current and future benefits can be paid. The Scheme’s funding target is specified in the Statement of Funding Principles. The Scheme funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme’s circumstances.

The Scheme’s present investment objective is to achieve a return of around 1.4% per annum (as at 31 December 2023) above the return on 10-year UK Government bonds, net of investment management fees.

#### **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 A. 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 mandate ("LDI").

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 policy / framework on a regular basis. Further details on this can be found in Appendix C.

## **Investment Management Arrangements**

The investments are made through a platform provider where, with advice, the Trustee will select underlying funds from the platform to implement the chosen strategy. The platform provider will be responsible for:

- Investing in the chosen underlying funds in the proportions agreed by the Trustee, adjusted as necessary from time to time;
- Providing the Trustee with quarterly performance reports and asset valuations;
- Providing any initial asset transition plan for the investment consultant to review; and
- Asset rebalancing and meeting cash flow requirements, when required.

The Trustee has selected several funds on the platform in which to invest the underlying assets of the Scheme, as listed in the IID. 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 the platform provider. 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.

The platform provider's and investment managers' remuneration is based upon a percentage value of the assets under management.

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

## Investment Manager Monitoring and Engagement

The Trustee monitors the Scheme's investment managers, platform provider 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	<ul style="list-style-type: none"> <li>• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• There are significant changes made to the investment strategy.</li> <li>• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.</li> <li>• Underperformance vs the performance objective over the period that this objective applies.</li> </ul>
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> <li>• The Trustee's investment managers provide information via the platform providers on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>• The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.</li> <li>• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters as necessary.</li> </ul>	<ul style="list-style-type: none"> <li>• The manager has not acted in accordance with their policies and frameworks.</li> <li>• The manager's policies are not in line with the Trustee's policies in this area.</li> </ul>

Through the engagement described above, the Trustee will work with the investment managers, via the platform provider, 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.

### Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005



except where the Scheme invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Scheme's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

**Direct investments**

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

**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 and platform providers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee believes that their 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.

The Isio Administration Team (on behalf of the Trustee) estimates the monthly benefit outgoings and along with the Isio Investment Team, ensures that sufficient cash balances are available within the Scheme.

**Compliance**

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, The Occupational Pension Schemes (Investment) Regulations 2005 and The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, as amended from time to time. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

**Signed:**

**Signed:** 

**Date:**..... 03-06-2024 .....

**Appendix A – 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 with this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>• Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme's assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>• Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>• 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.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

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

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	<ul style="list-style-type: none"> <li>• To hedge 95% of these risks with the use of Liability Driven Investment, whilst ensuring compliance with all regulatory guidance in relation to leverage and collateral management.</li> </ul>

Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	<ul style="list-style-type: none"> <li>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 meet regulatory guidance around providing collateral to the LDI manager.</li> </ul>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	<ul style="list-style-type: none"> <li>To remain appropriately diversified and hedge away any unrewarded risks, where practicable.</li> </ul>
Credit	Default on payments due as part of a financial security contract.	<ul style="list-style-type: none"> <li>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</li> <li>To select investment managers on the platform 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.</li> </ul>
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.	<ul style="list-style-type: none"> <li>To select managers on the platform who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion: <ol style="list-style-type: none"> <li>1. Formalised a responsible investment ("RI") policy / framework</li> <li>2. Implementation of the RI policy / framework via the investment process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG-specific reporting</li> <li>5. Signatory to the UN PRI</li> </ol> </li> <li>The Trustee monitors the managers on an ongoing basis.</li> </ul>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	<ul style="list-style-type: none"> <li>Hedge all currency risk</li> </ul>
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	<ul style="list-style-type: none"> <li>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</li> </ul>



## Appendix B

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

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.</p>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<p>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.</p>	<ul style="list-style-type: none"> <li>The Trustee reviews the investment managers' performance relative to medium- and long-term objectives.</li> <li>The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.</li> <li>The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.</li> </ul>
<p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.</li> <li>Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.</li> </ul>
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<p>The duration of the Scheme's arrangements with the investment managers</p>	<ul style="list-style-type: none"> <li>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.</li> <li>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.</li> </ul>
<p>Voting policy – How the Trustee expects investment managers to vote on its behalf</p>	<ul style="list-style-type: none"> <li>The Trustee acknowledges responsibility for the voting policies that are implemented by the Scheme's investment managers on its behalf.</li> </ul>

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

- The Trustee acknowledges responsibility for the engagement policies that are implemented by the Scheme's investment managers on its behalf.
- The Trustee, via its investment advisers, will engage with managers about 'relevant matters' as necessary.
- Example stewardship activities that the Trustee has considered are listed below.
  - Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities.



### **Appendix C - Collateral management policy**

The Trustee will review the collateral management policy regularly, or as soon as possible in the event of significant market movements.

At the time of writing, the Trustee is targeting a level of collateral over and above that within the Scheme's pooled LDI funds that is sufficient to withstand at least one collateral call from each of the Scheme's pooled LDI funds.

The Trustee also has a framework for managing collateral in the pooled LDI funds.

Trigger	Action	Responsibility
Pooled LDI mandate issues capital call.	Assets sold from below collateral waterfall to meet capital call.	LDI Manager and Platform Provider.
Assets within the automatic collateral waterfall are insufficient to meet the next estimated capital call were a recapitalisation process for the pooled LDI mandate to be triggered.	Other assets invested on the investment platform are sold to top up the assets in the collateral waterfall.	LDI Manager responsible for monitoring estimate of next capital call and the Trustee responsible for monitoring and implementation.
Pooled LDI mandate issues capital call but assets within the automatic collateral waterfall are insufficient and other liquid assets on the investment platform waterfall have already been exhausted.	Reduce the liability hedge according to the shortfall in the capital call.	N/A

The latest collateral waterfall is set out below. The assets are held with the same manager as the LDI mandate, which lowers the governance burden on the Trustee. At the time of writing, as well as the DGF holding noted below, the Scheme holds pooled ABS and multi-asset credit funds on the investment platform. As these vehicles have daily liquidity, they can be used to top up the assets in the collateral waterfall if necessary.

Order of preference	Manager	Asset class	Dealing frequency	Notice period	Settlement period
First	LDI Manager	Cash	Daily	T	T + 3
Second	LDI Manager	DGF	Daily	T	T + 3