Muntons plc Retirement Benefits Scheme
(the Scheme)

Statement of Investment Principles

March 2024

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1. Introduction

This statement provides information about the investment strategy adopted by the Trustee for the Scheme. The statement meets the requirements of legislation* with additional information being provided in a separate Investment Implementation Policy.

Upon request, a copy of this statement will be made available to members, the Scheme Actuary and any investment managers used by the Trustee.

Throughout the statement, wording in blue represents actions that will be taken by the Trustee in connection with the Scheme's investment arrangements.

*In particular, consideration has been given to:

- the Pensions Act 1995;
- the Occupational Pensions (Investment) Regulations 2005;
- the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

2. Investment governance structure

Investment advice

The Trustee will obtain and consider written advice from a suitably skilled and professionally qualified adviser when reviewing the Scheme's investment strategy and when considering the suitability of potential investments.

Legal advice

The Trustee will seek legal advice relating to investment matters whenever deemed necessary.

Consultation with the sponsoring employer

The Trustee will consult with the sponsoring employer before making any changes to the Scheme's investment strategy.

Conflicts of interest

The Trustee is satisfied that the Scheme's investment strategy meets its responsibility to invest the assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Investment managers

Day-to-day management of the Scheme's assets, including the selection, retention and realisation of investments, is delegated to one or more investment managers.

Custodians

To ensure safekeeping of the assets, ownership and day-to-day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where a pooled fund is held, the custodian will typically be appointed by the investment manager.

3. Investment beliefs

The investment beliefs stated below have been developed by the Trustee and are reflected in the Scheme's investment strategy.

Basic investment principles

The Trustee believes that the following three basic investment principles should be taken into account in the construction of the Scheme's investment strategy:

i) Targeting higher levels of investment return requires increased levels of investment risk which increases the volatility of the funding position.

ii) Long-term performance of the Scheme's assets is attributable primarily to the strategic asset allocation rather than the choice of investment managers.

iii) Asset diversification helps to reduce risk.

Financially material considerations and the appropriate time horizon

The Trustee believes that the potential impact of any financially material considerations that may affect the Scheme's investments should be assessed over the period during which benefits are expected to be paid from the Scheme. In the terminology used by legislation, the Trustee considers this period of time to be "the appropriate time horizon of the investments".

Environmental, Social and Governance (ESG)

The Trustee believes that the impact of ESG risks and opportunities can be financially material and the Trustee recognises that ESG matters, particularly climate change, should be assessed over the appropriate time horizon.

Use of active management

The Trustee believes that active management has the potential to add value either through offering the prospect of enhanced returns or through the control of volatility.

The Trustee believes that active management may help to mitigate the financial impact of ESG risks.

3. Investment beliefs (continued)

Stewardship

Stewardship is defined by the Financial Reporting Council as being "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

The Trustee believes that good stewardship can help create, and preserve, value for companies and markets as a whole.

Members' views (non-financial matters)

Legislation defines non-financial matters as including (but not limited to) ESG matters and the present and future quality of life of the members and beneficiaries of a scheme.

The Trustee believes that its duty to members and beneficiaries will be best served by ensuring that all benefits can be paid as they fall due and the Trustee's Investment Objectives are designed to ensure this duty is achieved.

In reaching this conclusion, the Trustee considered whether to take members' views into account when determining a suitable investment strategy and in the selection, retention and realisation of investments. However, the Trustee has determined that it would not be practical to do so. In particular, the Trustee concluded that it is likely that members and beneficiaries would hold a broad range of views, which would be difficult to accommodate.

At least every three years, the Trustee will:

- review the suitability of its investment beliefs;
- review its policy on whether to take account of members' views within the Scheme's investment strategy and in the selection, retention and realisation of investments.

4. Stewardship

The Scheme's assets are invested in pooled funds and the Trustee therefore accepts that ongoing engagement with underlying companies (including the exercise of voting rights) will be determined by an investment manager's own policies on such matters. Consequently, the Trustee recognises that its ability to directly influence the action of companies is limited.

The Trustee considers an investment manager's policies on engagement and voting in making decisions about appointing and retaining investment managers.

The Trustee recognises that members might wish the Trustee to engage with the underlying companies in which the Scheme invests with the objective of improving corporate behaviour to benefit the environment and society. However, the Trustee's priority is to select investment managers which are best suited to help meet the Trustee's investment objectives, and ultimately to ensure that members' benefits can be paid as and when they fall due.

The Trustee expects that each investment manager should discharge its responsibilities in respect of investee companies in accordance with that investment manager's own corporate governance policies and current best practice, such as the UK Stewardship Code and the UN Principles for Responsible Investment.

The Trustee expects that, where appropriate, each investment manager should take ESG considerations into account when exercising the rights attaching to investments and in taking decisions relating to the selection, retention and realisation of investments.

The Trustee expects that the investment managers selected to manage the Scheme's assets should invest for the medium to long term and should engage with issuers of debt or equity with a view to improving performance over this time frame.

The Trustee will review the stewardship policies of the investment managers on an annual basis.

5. Investment objectives

The Trustee's primary investment objectives are:

- to ensure that the assets are sufficient and available to pay members' benefits as and when they fall due;
- to generate an appropriate level of investment returns – to improve the funding position and thereby improve security for members; and
- to protect the funding position – limiting the scope for adverse investment experience reducing security for members.

The Trustee's long-term funding objective is to target 105% funded on a 'gilts +0.5%' per annum basis, which includes an approximate allowance for future expenses to be paid from the Scheme.

The Trustee's investment approach is designed to strike a balance between the above primary objectives but also considers:

- the nature and timing of benefit payments;
- expected levels of investment return on different asset classes;
- expected levels of investment return variability and, specifically, the expected level of short-term volatility of the funding position; and
- the sponsoring employer's ability to withstand additional contribution requirements that may arise from volatility in the funding position.

The Trustee has taken advice from its investment adviser to construct a portfolio of investments consistent with these objectives. In doing so, consideration is given to all matters which are believed to be financially material.

The Trustee will review its investment objectives at least every three years.

6. Risk capacity and risk appetite

In determining an appropriate investment strategy for the Scheme, the trustee considers the ability of the Scheme and the employer to absorb risks.

The principal investment risks identified by the Trustee are listed in the appendix to this document together with an explanation of how those risks are mitigated.

The Trustee will review the investment risks faced by the Scheme at least every three years.

7. Strategic asset allocation

In determining the strategic asset allocation, the Trustee views the investments as falling into the following categories:

1. **Matching Assets** – Assets that are expected to react in a similar way to the liabilities to changes in gilt yields and expectations of future inflation. The allocation to Matching Assets is expected to reduce the volatility of the Scheme's funding position.

2. **Growth Assets –** Assets that are expected to deliver long-term returns in excess of liability growth. The allocation to Growth Assets is expected to improve the Scheme's funding position over time.

To implement the investment strategy, the Trustee considers the full range of available investments (within the bounds of practicality). This range includes, but is not limited to:

- equities
- bonds
- property
- commodities
- multi-asset funds
- liability driven investment (LDI)
- derivatives
- cash

The strategic split of the Scheme's assets will evolve as the Scheme's funding position improves as follows:

Asset class	Strategic Allocation at March 2024	At 100% funding*	At 102.5% funding*	At 105%* funding*
Matching Assets	*54.0%*	*58.0%*	*62.0%*	*66.0%*
Corporate bonds	26.5%	31.0%	35.5%	40.0%
LDI, government bonds and cash	27.5%	27.0%	26.5%	26.0%
Growth Assets	*46.0%*	*42.0%*	*38.0%*	*34.0%*
Absolute return credit	6.8%	8.5%	10.3%	12.0%
Short-dated global credit	10.5%	11.0%	11.5%	12.0%
Multi-asset fund	28.8%	22.5%	16.3%	10.0%
Total	100.0%	100.0%	100.0%	100.0%

*funding assessed on the 'gilts +0.5%' per annum basis

7. Strategic asset allocation (continued)

When a trigger funding level is reached, the Trustee will consider all relevant matters at that time before implementing a restructuring trade.

The best-estimate expected return from the Scheme's investment strategy will fluctuate slightly as market conditions change but, as at 31 December 2023 was expected to reduce from gilt yields + 1.1% under the initial strategy to gilt yields + 0.9% under the final strategy shown in the above table. These expected returns are after allowance for investment manager fees.

Between trigger adjustments to the investment strategy, the asset allocation will drift as a consequence of market movements. The allocation will not automatically be rebalanced but will be kept under review by the Trustee.

The Trustee will review the strategic asset allocation at least every three years to ensure that the investment strategy remains consistent with the Trustee's funding objectives. As part of such a review, the Trustee will consider the risks associated with the investment strategy.

The Trustee will regularly review the asset allocation to ensure it does not drift too far away from the strategic position.

Growth Assets

The Growth Assets are invested in short-dated, global corporate bonds, absolute return credit investments and a multi-asset fund. Any overseas currency hedging is predominantly hedged back to sterling.

Matching Assets

The Matching Assets are invested in long-dated, sterling denominated corporate bonds, gilts, cash and derivative instruments.

Some of the Matching Assets are leveraged and the Trustee has an agreement in place with the investment manager of the leveraged assets to ensure that the leverage is robustly managed.

7. Strategic asset allocation (continued)

The initial investment strategy is designed to match approximately 97% of the sensitivity of the liabilities to changes in gilt yields and inflation. For this purpose, the liabilities are assessed using a discount rate of gilts + 0.5% per annum. Under the subsequent strategies, the level of matching will be increased to 100% of the sensitivity of the liabilities to changes in gilt yields and inflation.

The Trustee also insures a proportion of the Scheme's pensioner liabilities and these insurance policies will provide a stream of income in respect of named individuals for as long as those individuals remain alive. The income received offsets pension payments made from the Scheme.

Cash

The Trustee may hold cash, either in a cash fund or in the Trustee's bank account.

Cashflow management

Investments into, and disinvestments from, the Scheme will be structured in a way that is consistent with the Scheme's strategic asset allocation.

Additional Voluntary Contributions (AVCs)

AVCs are held separately from the Scheme's other investments and the Trustee aims to make a variety of funds available with the member choosing which funds to use. From time to time, the Trustee reviews the range of available funds to ensure the choice remains appropriate for members' needs. The AVC facility is closed to further contributions.

The Trustee will review the ongoing suitability of the AVC arrangements on a periodic basis.

8. Investment manager arrangements

The Scheme's assets are invested predominantly via pooled funds on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The Trustee will primarily hold pooled funds and will ensure that the Scheme's assets are predominantly invested on regulated markets.

Use of derivatives

The Trustee may select funds which are permitted to use derivative instruments to reduce risk or for efficient portfolio management.

Use of leverage

The investment strategy agreed by the Trustee includes a holding in leveraged assets which is used to hedge the sensitivity of the liabilities to changes in interest rates and inflation. The use of leverage increases the value of assets available to be invested for growth and ensures that the overall level of expected return from the Scheme's investment strategy is sufficient to support the discount rate used for Scheme funding purposes.

The leverage is achieved through an investment in an LDI fund and the manager of the LDI fund monitors leverage on a daily basis by ensuring that sufficient collateral is retained within the fund. If leverage increases above an upper threshold a leverage management payment will be required under which additional assets will be transferred into the LDI fund to increase the collateral.

The agreed structure for managing leverage uses funds held on an investment platform alongside the LDI as the source for LDI leverage management payments. This ensures payments into the LDI fund can be processed quickly by the manager of the LDI fund.

The Trustee has provided instructions to the platform provider and LDI fund manager such that a transfer of assets to reduce leverage can be implemented by the manager of the LDI fund without the need for Trustee or platform provider involvement. This structure ensures that leverage can be reduced quickly if required.

8. Investment manager arrangements (continued)

In addition, the Trustee's investment adviser will review the leverage of the LDI fund on a quarterly basis and, with the same frequency, will ensure that assets held alongside the LDI fund on the investment platform are sufficient to replenish the collateral within a short time frame if required.

Alignment with the Trustee's investment principles

To assess the suitability of a fund, the Trustee, in conjunction with its investment adviser, considers how the fund would fit within the Scheme's investment strategy and how the fund is expected to help the Trustee meet its investment objectives. As part of this consideration, all matters which are deemed to be financially material are taken into account including:

- Whether the investment manager has appropriate knowledge and experience.
- The fund's objective and whether that objective is consistent with the performance that the Trustee expects from the fund.
- The risks associated with the fund.
- Whether the fund's return is expected to exceed inflation over the long-term.
- Past performance – with the emphasis being on assessing long-term performance.
- The assets that will be held within the fund, including whether the allocation is likely to change over time, and the extent of any exposure to overseas currencies.
- The fund's fee structure - to ensure that this is reasonable and that it does not provide an incentive for the investment manager to manage the fund in a way that differs from the Trustee's expectations.
- Where appropriate, whether higher fees associated with active management are justified.
- How frequently underlying investments within the fund are expected to be traded and the impact on portfolio turnover costs.
- The investment manager's approach to ESG matters.

8. Investment manager arrangements (continued)

- The investment manager's policy in relation to the exercise of the rights (including voting rights) attaching to the investments held within the fund.
- The investment manager's policy in relation to undertaking engagement activities in respect of the investments held within the fund*.

**This includes engaging with an issuer of debt or equity regarding matters including (but not limited to) performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, and ESG considerations. It also includes engaging on these matters with other investment managers, other holders of debt or equity and persons or groups of persons who have an interest in the issuer of debt or equity.*

The investment managers are incentivised to maintain an approach consistent with that expected when they were selected by the Trustee through the payment of the investment management fee (and in the knowledge that a change of approach may cause investors to reconsider the investment).

The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. The Trustee assesses this when selecting and monitoring managers.

Duration of Investment Manager Arrangements

Although the Trustee regularly reviews the ongoing suitability of funds held, the expectation is that funds will normally be held for several years.

At least every three years, the Trustee will review whether the ongoing use of each fund remains consistent with its investment strategy.

The Trustee will ensure that any new pooled funds introduced into the investment strategy are appropriate to the circumstances of the Scheme.

9. Monitoring

The Trustee reviews the Scheme's investments for all matters considered to be financially material (including ESG and stewardship matters) regularly. This includes reviewing that each fund continues to operate in a manner that is consistent with the factors used by the Trustee to select the fund and that the choice of funds remains appropriate.

When assessing the performance of a fund, the Trustee does not usually place too much emphasis on short-term performance although it will seek to ensure that reasons for short-term performance (whether favourable or unfavourable) are understood.

Action when a pooled fund is causing concern

Where concerns about a fund are identified, the Trustee may look to reduce exposure to that fund or disinvest from it entirely. However, such action is expected to be infrequent and, in the first instance, the Trustee would normally expect its investment adviser to raise the concerns with the investment manager. Thereafter, the Trustee, in conjunction with its investment adviser, would monitor the position to assess whether the situation improves.

The Trustee will regularly assess the ongoing suitability of each pooled fund held for all matters deemed to be financially material (including ESG and stewardship matters and portfolio turnover costs).

10. Future amendments

The Trustee will review this statement at least every three years and without delay after any significant change in circumstances or investment strategy.

In preparing this statement, the Trustee consulted with the sponsoring employer.

The Trustee will consult with the sponsoring employer before amending this statement.

The Trustee received and considered written investment advice from a suitably skilled and professionally qualified adviser to help with the preparation of this statement.

The Trustee will obtain and consider written advice from its investment adviser before amending this statement.

The principles set out in this Statement have been agreed by the Trustee:

Signed:…………………………………………………… Date: ………………………

For and on behalf of the Trustee of the Muntons plc Retirement Benefits Scheme

Appendix: Investment risks and their mitigation

The principal investment risks identified by the Trustee are listed below together with an explanation of how they are mitigated.

Indirect credit risk

The risk that an investment held within a pooled fund will suffer a financial loss because of a third party failing to pay monies that it owes.

Currency risk

The risk that the value of an investment will fall because of adverse movements in currency markets.

Real return risk

The risk that the Scheme's assets do not deliver a long-term return in excess of inflation.

ESG risk

The risk that ESG factors will adversely impact the value of the Scheme's investments.

Investment manager risk

The risk that an investment manager does not deliver returns in line with expectations.

<u>Mitigation of the above risks</u>

The risks listed above are mitigated by the Trustee monitoring the suitability of the pooled funds used by the Scheme.

Solvency and employer covenant risk

The risk that the Scheme's assets fall short of the amount required to pay all benefits and expenses as they fall due and that insufficient assets could be recoverable from the sponsoring employer to meet the shortfall.

<u>Mitigation</u>

The Trustee's funding approach is designed to be prudent and, in determining the funding and investment strategy, the Trustee considers the strength of the covenant of the sponsoring employer.

Appendix: Investment risks and their mitigation (continued)

Self-Investment risk

The risk that the Scheme's assets are linked to the sponsoring employer which could mean a reduction in the covenant of the sponsoring employer would simultaneously decrease the value of the Scheme's assets.

<u>Mitigation</u>

The Trustee will ensure exposure to employer-related assets does not exceed limits prescribed in legislation.

Direct credit risk

The risk that disruption with an investment manager (such as fraud or insolvency) could adversely impact the value of the Scheme's investments.

<u>Mitigation</u>

Any pooled funds held are structured such that the Scheme's assets are ringfenced from the assets of the investment manager.

There are a number of mitigants in relation to fraud, including the investment managers' internal controls.

Interest rate risk and inflation risk

The risk that movements in interest rates/expectations for future inflation will adversely impact the value of the Scheme's investments.

<u>Mitigation</u>

Any assets held which have significant interest rate/inflation exposure will be selected to offset the sensitivity of the Scheme's liabilities to interest rate/inflation movements. This approach mitigates interest rate risk and inflation risk.

Appendix: Investment risks and their mitigation (continued)

Liquidity Risk

The risk that assets cannot be realised for cash when required.

Mitigation

The Trustee will invest the majority of the Scheme's investments in funds which can be realised for cash at relatively short notice without incurring high costs. However, the Trustee recognises that the Scheme's liabilities are long-term in nature and that a modest allocation to less-liquid investments may be appropriate.

The Trustee will:

- ensure the Scheme does not hold any direct employer-related assets and that any indirect exposure is expected to be less than 5% of total assets;
- ensure that the majority of the Scheme's investments can be realised for cash at relatively short notice without incurring high costs.