Muller Retirement and Death Benefits Scheme (1978)

Statement of Investment Principles

June 2023

Contents

1. Introduction

1.1. What is the purpose of this Statement of Investment Principles ("SIP")?

This SIP sets out the policy of the Trustee on matters governing decisions about the investments of The Muller Retirement and Death Benefits Scheme (1978) (the "Scheme").

The Scheme is a Registered Pension Scheme with Her Majesty's Revenue & Customs ("HMRC") for the purpose of the Finance Act 2004. It is classed as a Defined Benefit ("DB") Pension Scheme.

1.2. What is the legal and statutory background to the SIP?

The SIP is designed to meet the requirements of Section 35 of the Pensions Act 1995 (the "Act") and all subsequent legislation, Regulations and guidance from The Pensions Regulator applying to UK pension schemes.

1.3. Who has had input to the SIP?

This SIP has been formulated after obtaining and considering written professional advice from Quantum Advisory ("Quantum"), the Trustee's investment adviser, and consulting Muller England Limited (the "Sponsoring Employer") as required by the Act and subsequently by the Regulations. Quantum has the knowledge and experience required under the Regulations to provide professional advice on the management of the Scheme's investments.

2. Investment policy, objectives and strategy

2.1. Investment policy

The Scheme's assets are held in trust by the Trustee. The investment powers of the Trustee are set out in the Scheme's Trust Deed.

The Trustee is aware of the need to invest assets in the best and sole interest of the members and that the powers of investment must be exercised in a manner which supports the security, quality, liquidity and profitability of the Scheme as a whole.

The Trustee recognises that the assets of the Scheme must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must, in any event, be kept to a prudent level.

2.2. Investment objective

The investment strategy in this Statement reflects the current investment strategy, following changes to the investment strategy that occurred during 2022.

When setting the investment strategy, the Trustee considers an expected level of return that supports the Scheme's current Recovery Plan, whilst not unduly impacting the level of risk the Scheme can afford to take, taking into consideration the Trustee's view on the strength of the Sponsoring Employer's Covenant.

The Trustee's primary concern is to act in the best financial interests of the Scheme's beneficiaries. This requires that a rate of investment return is achieved, which supports the long-term funding plan (which has been discussed with the Sponsoring Employer), that is consistent with a prudent and appropriate level of risk.

2.3. What did the Trustee consider in setting the Scheme's investment strategy?

In setting the strategy, the Trustee considered:

- the investment objectives;
- the Scheme's characteristics;
- the Annual Management Charges and other charges;
- the fact that, for the foreseeable future, contributions receivable by the Scheme are not likely to exceed benefits payable;
- the risks and rewards of different asset classes and investment strategies;
- the expectation that, over the long-term, equities and property are likely to produce higher returns than bonds, but at the risk of short-term volatility or liquidity constraints;
- the need for appropriate diversification between different asset classes;
- the financial strength and reputation of each investment manager;
- the financial strength of the investment managers' custodian; and

- the strength of the Sponsoring Employer's covenant to support the Scheme.

2.4. What risks were considered and how are they managed?

The Trustee’s primary concern is to act in the financial interests of the Scheme’s members. As such, the primary risk is the inability of the Scheme to meet member benefit payments as they fall due.

In order to achieve its objectives, the Trustee recognises the need to invest in both “liability matching” and “return seeking” assets (see 2.6). The Trustee identified the following investment risks:

- the risk that investment returns in general will not achieve expectations;
- the risk that an investment manager will not meet its targets;
- the risk that the value of liabilities may increase due to changes in actual and expected inflation and interest rates;
- the risk of mis-match between the value and timing of the Scheme’s income and outgoings;
- the risk of a shortfall in the liquid assets held by the Scheme relative to its immediate liabilities;
- the risk that the performance of any single investment within the Scheme assets may disproportionately affect the ability of the Scheme to meet its overall investment objectives;
- the risk of misappropriation, unauthorised use or mis-delivery of Scheme assets; and
- the risk that Environmental, Social and Governance (“ESG”) factors, including climate change, adversely impact the value of the Scheme’s assets if this is not given due consideration and/or misunderstood.

The Trustee recognises these different types of risk and seek to minimise them as far as possible by the use of regular monitoring of investment performance; by a deliberate policy of diversification; by taking into account the timing of future payments; and by regularly reviewing the appropriateness of the prevailing strategy against the Scheme’s objectives.

2.5. Financially material considerations, non-financial matters and stewardship policies

2.5.1. Financially material considerations

The Trustee acknowledges the potential impact upon the Scheme’s investments (both in terms of risk and return) arising from financially material matters. The Trustee defines these as including, but not limited to, ESG factors (including climate change).

With specific regard to ESG factors, the Trustee considers how these are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustee has provided the appointed investment managers with full discretion concerning the evaluation of ESG factors. Representatives of the incumbent investment managers may attend Trustee meetings, at a frequency determined by the Trustee, to present on various matters including its ESG policies. The Trustee also periodically considers publicly available ESG related publications pertaining to the incumbent investment managers.

The Trustee acknowledges that some of the Scheme's investments are implemented on a passive basis and that by investing the majority of the Scheme's assets in pooled funds to achieve better diversification. This restricts the ability of the Trustee to dictate the policy of the investment managers in relation to specific ESG considerations and, limits the ability of the investment managers to take active decisions on whether to hold securities based on its consideration of ESG factors. The Trustee does however expect the incumbent investment managers, where relevant, to utilise its position to engage with investee companies on these matters and is satisfied that an ESG assessment is embedded into the investment manager's research process and that such considerations are an integral part of determining which pooled investments are suitable for the Scheme.

The Trustee also considers ESG factors when determining future investment strategy decisions. To date, the Trustee has not established any restrictions on the appointed investment managers but may consider this in future.

2.5.2. Stewardship

The Trustee acknowledges the constraints that they face in terms of influencing change due to the size and nature of the Scheme's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with its investments in a responsible manner.

The Trustee considers how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustee has provided the appointed investment managers with full discretion concerning the stewardship of its investments.

The Trustee reviews its investment managers' policies on the exercise of voting rights and monitors its engagement practice and proxy voting activity via their annual reports.

2.5.3. Non-financial matters

The Trustee does not consider non-financial factors and do not employ a formal policy in relation to this when selecting, retaining and realising investments. However, where members have been forthcoming with their views, the Trustee may consider these when setting investment strategy.

2.6. What is the investment strategy?

The investment strategy uses two key types of assets:

- "Matching assets": these exhibit characteristics similar to those of the Scheme's liabilities. Typically, matching assets are low risk fixed income investments and the return from them is similar to the return on UK government bonds (referred to as the 'minimum risk' return).
- "Return seeking assets": these target a rate of return in excess of the minimum risk return. Typically, these are equities or a diversified pool of other non-matching assets.

Following the investment review in 2022, a new strategic asset allocation was implemented by the Trustee, in consultation with the Sponsoring Employer, during 2022.

The Trustee monitors the performance of the Scheme's investments on a quarterly basis. Written advice is received as required from the investment adviser.

2.7. Fund managers, style and target returns

The funds in which the Scheme invests are pooled funds, which the Trustee believes are appropriate given the size and nature of the Scheme. Details of the fund managers, styles, benchmarks and target returns used can be found in the Appendix. These pooled funds are accessed through an implementation solution provider, Mobius Life Limited ("Mobius Life")

The relationship with each investment manager is open ended and is reviewed on a periodic basis.

2.8. Re-balancing

The Trustee has adopted a re-balancing procedure to ensure the Scheme maintains the desired risk and return profile. The Trustee monitors the Scheme's asset allocation through quarterly investment monitoring reports and at each Trustee meeting.

In the event that a tolerance range is breached, consideration should be given to rebalance back toward the strategic benchmark. The Trustee's bank account and the Scheme's Liability Driven Investment ("LDI") strategy are to be excluded from the re-balancing procedure. Details of the Scheme's target asset allocation and tolerance ranges can be found in the Appendix.

2.9. Cash flow procedure

Where possible, Scheme cash flows should be used to re-balance the Scheme back towards the strategic benchmark.

3. Appointment of Investment Managers

3.1. How many investment managers are there?

Details of the appointed investment managers, together with fund objectives and characteristics are outlined in the Appendix.

The relationship with the implementation solution provider and investment managers is open ended. The date of the appointment of each investment manager is noted in the Appendix.

3.2. What formal agreements are there with the investment managers?

The Trustee selects investment managers and funds which are appropriate to implement the investment strategy.

The Trustee will sign the appropriate policy documents, agreements and application forms with the implementation solution provider.

The Trustee keeps the appointment of all investment managers and implementation solution providers under review and will seek to replace any managers, or funds, which no longer remain appropriate to implement the Scheme's investment strategy.

3.3. What are the investment managers' responsibilities?

The investment managers are responsible for the day-to-day management of the Scheme's investments and are responsible for appointing custodians, if required.

The investment managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

Any performance requirements for the investment managers are detailed in the Appendix.

3.4. Custodians and administrators

The Scheme's investments are through pooled investment vehicles. There is no need for the Trustee to formally appoint a custodian. However, the investment managers have themselves appointed custodians for the safe custody of assets.

4. Investment implementation solution

4.1. What is an implementation solution and why use it?

An Investment implementation solution is a service that enables pension schemes to buy, sell and hold their investments all in one place. This allows greater flexibility and efficiency when switching investments as the scheme strategy changes or fund managers have to be replaced.

The centralisation of funds also allows consolidated reporting to be obtained more easily and more regularly, ensuring an investment strategy and associated flight path can be effectively tracked and monitored. All of these features allow pension schemes greater administrative efficiency, enhanced ease of strategy implementation and potential fee reductions.

4.2. How to access an Investment implementation solution?

Each pension scheme enters into a unit linked life policy through a Trustee Investment Policy (TIP). The policy's value is linked to the underlying investments, which the Investment implementation solution provider, in this case Mobius Life, has been directed to purchase. Mobius Life is responsible for investing into the underlying funds and takes responsibility for the relationship with the underlying fund managers. This includes transactions, reporting and governance. This differs from a traditional relationship that a pension scheme would have had with their fund managers where they would have invested directly with these managers and maintained a number of these individual relationships.

5. Other matters

5.1. How are various parties who are involved in the investment of the Scheme's assets remunerated?

Quantum is remunerated on a fixed fee or time-cost fee basis, with budgets agreed in advance for ad hoc project work whenever possible.

The Trustee has selected its investment managers to implement the investment strategy in an efficient manner, in line with the Scheme's investment objectives. The Trustee does not directly incentivise the managers to align their investment strategy and decisions with the Trustee's policies.

The Trustee does not directly incentivise the investment managers to engage with the issuers of debt or equity to improve their performance. The Trustee does, however, expect the investment managers to participate in such activities as appropriate and necessary to meet the investment objectives of the respective fund. The growth assets typically include an objective that is expected to result in a positive return over the medium-to-longer term and, as such, the investment managers engagement with the issuers of debt or equity is expected to be undertaken so as to target medium-to-long term value creation.

The Trustee considers the fees and charges associated with each investment before investing.

Mobius Life and the investment managers are remunerated on an ad valorem fee basis, which is calculated as a fixed percentage of the total value of the Scheme's funds they hold under management. This structure has been chosen to align the fund managers' interests with those of the Scheme.

In addition, the fund managers pay commissions to third parties on any trades they undertake in the management of the assets. The Trustee obtains an annual statement from the investment managers setting out all the costs of the investments of the Scheme.

5.2. Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly.

The Trustee's policy is to review its direct investments (if any) and to obtain written advice about them at regular intervals. When deciding whether to make any new direct investments or terminate any direct investments, the Trustee will obtain written advice from the Scheme's investment adviser. If the Trustee believes that an investment is no longer suitable for the Scheme, it will withdraw the assets from the arrangement deemed to be unsuitable and select a suitable alternative.

The written advice from the Scheme's investment adviser will consider the suitability of the investments, the need for diversification and the principles contained in this SIP. The adviser will have the knowledge and experience required under Section 36(6) of the Pensions Act to provide this advice.

5.3. Decision making

The Trustee is responsible for the investment of the Scheme's assets. The Trustee takes some decisions and delegate others.

When deciding which decisions to take, and which to delegate, the Trustee considers whether they have the appropriate training and expertise in order to make an informed decision.

The Trustee has established the following decision-making structure:

Trustee

- Set structures and processes for carrying out its role.
- Agree structure for implementing investment strategy.
- Select and monitor planned asset allocation.
- Select and monitor investment advisors and fund managers.
- Select and monitor direct investments.
- Prepare and maintain the SIP.

Investment adviser

- Advises on the Scheme's assets, including implementation.
- Advises on this SIP.
- Provides required training.

Investment managers/Implementation solution

- Operate within the written contracts and agreements.
- Select individual investments with regard to their suitability and diversification for the individual pooled vehicles.
- Ensure the suitability of the chosen benchmark for the respective investment vehicle.

5.4. Conflicts of interest

The Trustee considers any potential and actual conflicts of interest (subject to reasonable levels of materiality) at the start of each Trustee's meeting and documents these in the minutes. The investment managers report on conflicts of interest annually.

5.5. Capital structure of investee companies

The responsibility for monitoring the capital structure of investee companies (including any relevant developments) is delegated to the investment managers. Investment managers are expected to partake in a sufficient level of monitoring and action that is appropriate to the nature of the mandate.

6. Review

6.1. How often are investments reviewed?

Strategy reviews for the Scheme are undertaken periodically. Typically, a review of the Scheme will occur alongside triennial actuarial valuations; but more frequent reviews can occur in light of a material change of circumstances. Any change in investment strategy may necessitate a change in investment managers, regardless of the underlying performance of the funds.

Investment return experience and the performance of individual funds is reviewed with assistance from Quantum quarterly. Managers are reviewed against their agreed performance benchmarks and targets over both short-term and long-term time periods, to ensure they remain appropriate to implement the investment strategy for the Scheme.

6.2. How does the Trustee monitor portfolio turnover and costs?

The Trustee has delegated the selection of holdings to the appointed investment managers. The Trustee receives an annual report from Mobius Life setting out portfolio turnover and the associated costs.

The Trustee has not set a specific portfolio turnover target for each investment manager and recognises that portfolio turnover and costs may vary with market conditions. Each manager has ultimate responsibility for the underlying holdings within their funds and they are expected to change these underlying holdings to the extent required to achieve their investment objectives.

6.3 How often is this SIP reviewed?

The Trustee will review this SIP periodically and without delay after any significant change in investment policy. Any change to this SIP will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in, and practical experience of, financial matters, and to have the appropriate knowledge and experience of the management of pension scheme investments; and consulting with the Sponsoring Employer.

Signature: Signed for and on behalf of Vidett Trustee Services Trustee

Date: 19 September 2023

For and on behalf of the Trustee of The Muller Retirement and Death Benefits Scheme (1978)

Appendix – Managers and asset allocation

Managers and asset allocation

The following table shows the strategic asset allocation for the Scheme. All investments are accessed through the Mobius Life. The Scheme's strategic asset allocation, level of hedge and performance is reviewed periodically, with assistance from the Scheme's investment adviser as required.

Asset class	Manager	Fund	Strategic asset mix (%)	Tolerance ranges (+/- %)
Return Seeking Assets			**40**	--
Equities	LGIM	Future World Global Equity Index (GBP Hedged)	7.5	1.5
Equities	LGIM	Future World Global Equity Index	7.5	1.5
Diversified Growth	Baillie Gifford	Diversified Growth	7.5	2.5
Private Markets	Partners Group	Generations	7.5	1.0
Multi Asset Credit	Ninety-One	Global Total Return Credit	10	1.0
Liability Matching Assets			**60**	
Absolute Return Bond	Payden	Absolute Return Bond	10	
LDI and Cash	LGIM	LGIM Matching Core, Physical Gilts, and Index-Linked Gilts range	50	--
	LGIM	Sterling Liquidity		
Total			**100.0**	**--**

Note: Totals may not sum due to rounding. The asset allocation targets c.100% interest rate and inflation hedge on the value of the Scheme's assets at the point of implementation. The strategic asset allocation is subject to change and is based on liability interest rate and inflation sensitivities as at 30 June 2022.

Managers and fund details

Fund	Benchmark	Objective / Outperformance target	Custodian	Annual management fee
LGIM Future World Equity Index (GBP Hedged) / LGIM Future World Equity Index	Solactive LGIM ESG Global Markets Index	Track the performance of the benchmark (less withholding tax if applicable) - GBP Hedged to within +/-0.6% p.a. for two years in three.	Northern Trust	0.12% / 0.095%
Baillie Gifford Diversified Growth	Bank of England Base Rate	Outperform the benchmark by 4.5% p.a. (gross of fees) over rolling 5 years.	BNY Mellon	0.42%
Partners Group Generations	N/A	Generate a net return of 7% to 11% pa net of fees over a full market cycle.	BNY Mellon	1.25%
Ninety One Multi Asset Credit	N/A	Perform in line with the Secured Overnight Finance Rate + 4%.	State Street	0.55%
Payden Absolute Return Bond	ICE BofA SONIA Overnight Rate Index	Perform in line with the benchmark	Brown Brothers Harriman	0.40%
LGIM Matching Core LDI Fund range	N/A	To provide liability hedging by offering interest rate and inflation protection which replicates the liability profile of a typical UK defined benefit pension scheme.	Northern Trust	0.175%

LGIM Sterling Liquidity	SONIA	To provide diversified exposure and a competitive return in relation to the 7 Day GBP LIBID.	Northern Trust	0.05%

The table below shows the benchmarks, outperformance targets and annual management fees for each fund the Scheme is invested in.