Statement of Investment Principles – NIIB Group Limited (1975) Pension Scheme

Introduction

1 This document is the Statement of Investment Principles ('SIP') made by the Trustees of the NIIB Group Limited (1975) Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took written advice from the Scheme's Investment Consultant (WTW) although the ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees. A copy of this document has been provided to NIIB Group Limited as 'Sponsoring Employer'.

Scheme objectives

3 The main investment objective of the Scheme is to be fully funded on the technical provisions basis. In seeking to achieve this objective, the Trustees are mindful of the need to:

- Take account of current market conditions when positioning the portfolio at any time
- Limit the risk of the assets failing to meet the liabilities over the long term, noting that asset growth is expected to be made up of investment returns plus future contributions.

4 The Trustees will review this performance objective regularly and amend as appropriate.

Investment strategy

5 The Trustees have received advice to determine an appropriate investment strategy for the Scheme. The Trustees have a desire to diversify its risk exposures and to manage its investments efficiently.

6 As a result of the significant improvement in funding position of the Scheme over 2022/23 an investment strategy review was carried out. It was agreed in May 2024 that the portfolio would remove all exposure to equities with the funds to be switched into the LDI portfolio which would improve the interest rate and inflation hedge ratios. The SIP is being updated to reflect this new portfolio.

7 The investment strategy has a number of key elements which are as follows:

- Uses Liability Driven Investment ('LDI') to better match the liabilities
- Invests in fixed rate, all maturity, investment-grade Sterling-denominated corporate bonds
- Invests in multi-asset credit which is a combination of debt investments such as high yield,
- loans and asset backed securities; and

8 The use of passively and actively managed pooled funds.These elements of the Scheme's investment strategy (and the balance between these investments) will be reviewed from time to time with regard to maximising the chance of achieving the Scheme's investment objective. The Scheme's current asset allocation is 20% corporate bonds, 25% multi-asset credit and 55% LDI.

9 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

10 The Trustees will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

11 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.

12 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustees, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Arrangements with investment managers

13 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers (currently State Street Global Advisors ('SSgA'), M&G and Insight Investment ('Insight')). The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

14 The Trustees are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Trustees will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each fund, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk.

15 Alignment between an investment manager's management of the Scheme's assets and the Trustees' policies and objectives are a fundamental part of the appointment process of a new manager. Before investing, the Trustees will seek to understand the manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustees will ensure the investment objectives and guidelines of the vehicle are consistent with their own objectives.

16 To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles and are asked to explicitly confirm that the Scheme's assets are managed in line with the Trustees' policies.

17 Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustees will determine the correct course of action, which could include engagement with the manager, or termination of the appointment as deemed necessary.

18 The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

19 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

20 The Trustees reviews the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Financial & Non-financial Considerations

21 The Trustees recognise that financially material considerations, including (but not limited to) those arising from environmental, social and governance considerations (including climate change), can have a long-term impact on the risk / return of the Scheme's investments. Entities (for example companies / governments) that the Scheme invests in who fail to appropriately manage these risks could lead to a loss of capital for the Scheme. The Scheme has not imposed any particular (non-financial) policy or restrictions in relation to environmental, social and governance factors on its investments.

22 The Trustees recognise that potential financial risks could emanate from environmental, social, or governance factors and affect the value of, or return on, Scheme assets. Further, the Trustees recognise these as specific risks, that will affect individual (or groups similar) securities, companies, counterparties or assets. It is the Trustees belief that these and numerous other specific risks (e.g. regulatory, counterparty, or sovereign risk) to which Scheme assets may be exposed, are managed by the following methods:

- Employing diversification where possible, at all portfolio levels, in order to ensure that the Scheme has a suitable market-weighted exposure to any such specific risk (for example, a world market capitalisation weighted portfolio of publicly listed shares); and

- Where a diversified market exposure to such specific risks is not possible, or desired, and specific asset/company/counterparty selection is required, the Scheme employs external asset managers who can demonstrate that they include evaluation of all such specific risks, including those arising from environmental, social and governance factors, and invest only when there is a sufficient expected financial return to compensate for taking such risks.

23 The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

24 The Trustees do not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Voting and Engagement

25 The Trustees have examined how rights, including voting rights, attached to investments should be exercised. The Trustees recognise their responsibilities as shareholders being the owners of capital, and believe that good stewardship practices, including exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.

26 These matters are kept under review and the Trustees are aware of the policy towards corporate governance adopted by their investment managers. The Trustees recognise that the exercising of these rights, while delegated, ultimately remains their responsibility, and they review the voting activity of the investment managers periodically, including in the preparation of annual implementation statements.

Other matters

27 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

28 The Scheme's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustees are aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

29 The Trustees recognise a number of risks involved in the investment of the Scheme's assets:

- **Deficit risk:**
  - Is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
  - Is managed through assessing the progress of the actual growth of the liabilities relative to the growth of the assets.
- **Manager risk:**
  - Is measured by the expected deviation of the return relative to the benchmark set.
  - Is managed by monitoring the actual deviation of returns relative to the benchmark and factors supporting the manager's investment process.
- **Liquidity risk:**
  - Is measured by the level of cashflow required by the Scheme over a specified period.
  - Is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.
- **Currency risk:**
  - Is measured by the level of exposure to non-Sterling denominated assets.
  - Is managed by investing any bond assets in Sterling denominated bonds and by investing in an equity fund that hedges a large portion of the non-Sterling exposure i.e. the impact of exchange rate movements on the Scheme's asset value is reduced.
- **Interest rate and inflation risk:**
  - Is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
  - Is managed by investing in an LDI portfolio designed to match movements in the value of the liabilities due to changes in interest rates and inflation.
- **Political risk:**
  - Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - Is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

- **Sponsor risk:**
    - Is measured by informally assessing the Sponsoring Employer covenant from time to time.
    - Is managed through an agreed contribution and funding schedule.

November 2024

Authorised for and on behalf of the Trustees of the Scheme

Signed: Zahir Fazal

Date: November 2024