THE BAXI GROUP PENSION SCHEME

Statement of Investment Principles – September 2024

1. Introduction

Baxi Group and Newmond Pension Trustees Limited, the Trustee of the Baxi Group Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015;
- The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019; and subsequent legislation ("the Act"). The Statement also seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the National Association of Pension Funds.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

The strategic management of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by its investment objectives. The day to day management of the assets is delegated to professional investment managers. As required under the Act, the Trustee has consulted a suitably qualified person in having obtained written advice from its Investment Consultant, Mercer Limited. The Trustee, in preparing this Statement, has also consulted the principal employer, Baxi Heating UK Limited ("the Company").

Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary.

The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2. Structure of the Scheme

The Scheme has both Defined Benefit ("DB") and Defined Contribution ("DC") Sections. The DC Section is a qualifying scheme for auto-enrolment purposes. The DC Section also includes the Additional Voluntary Contribution ("AVC") assets. There are some legacy with-profit AVC arrangements for which further details can be found in Section 6.

3. Process for Choosing Investments

The stewardship of the Scheme's investment arrangements may be divided into three main areas of responsibility. The first (Sections 4.1 and 5.1), deals with the strategic management of the Scheme's assets, which is fundamentally the responsibility of the Trustee; and is driven by its investment objectives. The Trustee takes decisions in this area having considered the recommendations of its Investment Sub-Committee ("the ISC").

The second element is the day-to-day management of the assets, which is delegated to professional investment managers as described in Sections 4.2 and 5.3.

The final part is the ongoing measurement and monitoring of the performance of the appointed managers against predetermined benchmarks (Sections. Again, this is the responsibility of the Trustees.

The Trustee regularly review the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time.

The ISC provides a framework through which discussions can take place regarding changes to the investment strategy within the DB and DC Sections of the Scheme. The ISC will also consider general issues and new investment opportunities.

The ISC has no delegated authority to make decisions in connection to the Scheme, which remain the sole responsibility of the Trustee.

Details regarding the constitution of the ISC, as well as its role, are set out in the ISC's Terms of Reference.

4. DB Section

4.1. Investment Objectives and Strategy

4.1.1. Investment Objectives

The Trustee's main investment objective is to ensure members' benefits are payable as they fall due and to act in the best interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in the strategic management of the assets. These objectives are as follows.

- To optimise returns from investments over the long term which are consistent with the long term assumptions of the Actuary in determining the funding of the Scheme
- To control the various funding risks to which the Scheme is exposed
- To achieve fully funded status on a low-risk liability basis
- To gradually de-risk to a low-risk investment strategy over time
- To provide a suitable range of investment funds for AVC contributions

4.1.2. Investment Strategy

The Trustee recognises that the investment strategy should take account of the Scheme's current funding level, liability profile and long term funding objectives.

The Trustee has determined, based on written expert advice from Mercer, a benchmark mix of asset types and ranges within which the investment managers may operate. This is set out in the table below and the Trustee believes this strategy is appropriate for dealing with the risks outlined in section 4.1.3.

Asset Class	**Scheme Benchmark %**
Matching Portfolio	**85.0**
UK Corporate Bonds	42.5
Liability Driven Investment ("LDI")*	42.5

Asset Class	Scheme Benchmark %
Growth Portfolio	**15.0**
Diversified Growth Fund	15.0
Total	**100.0**

* consisting of leveraged and unleveraged gilts and index linked gilts, swaps and cash

The Trustee's objective for the LDI portfolio is to hedge the inflation and interest rate exposure up to the Scheme's funding level on the Technical Provisions Basis (c. 100% on the gilts +0.8% basis at the point of implementation), allowing also for the hedging characteristics of the corporate bonds.

The Scheme has progressively rebalanced and it has now reached its benchmark allocation of 15% growth assets, 85% liability matching assets subject to meeting certain triggers as detailed in the De-Risking Principles document agreed in August 2019, which the Trustee had consulted with the Company. The De-Risking Plan agreed assumes that the benchmark allocation to growth assets reduces by 3% of total assets at each 31 March (assuming the funding level is in line with the recovery plan from the 2021 Actuarial Valuation) such that the Scheme has an allocation to 15% growth assets by the end of the recovery plan (31 March 2024). If at a subsequent 31 March the funding position has improved such that progress is in line with the recovery plan, the Trustee will make the derisking step scheduled for that year as well as the deisking steps that were scheduled for previous years.

The Trustee reviewed the De-Risking Principles as part of the April 2018 actuarial valuation process taking account of expected returns at that date.

4.1.3. Risk Management and Measurement

There are various risks to which the Scheme is exposed. The Trustee's policy on the management of the key investment-related risks is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. These are mainly the strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:

  - Equity market risk (the risk that equity valuations fluctuate in an uncorrelated way with the value of the liabilities, within the Diversified Growth Funds that the Scheme invests in)

  - Interest rate risk (the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates)

  - Inflation risk (similar to interest rate risk but concerning inflation)

  - Credit risk (the risk that payments due to corporate bond investors may not be made)

- The strength of the Company's covenant is important and the Trustee is very aware of the risk posed by the correlation between the strength of the covenant and the funding level of the Scheme.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position.

- Recognising the above risks, the Trustee regularly reviews its stated objectives to ensure they continue to reflect the Scheme's liabilities, contribution levels and Trustee's attitude to risk. In turn, the Trustee regularly seeks investment advice to ensure that the Scheme's investment strategy reflects its objectives. This Statement is reviewed at least every three years to ensure that the stated investment objectives and strategic asset mix remain appropriate and immediately following any significant change in strategy or objectives.

- The Trustee recognises the risks that may arise from the lack of diversification of investments and aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. This principle of diversification extends across asset classes and within asset classes. Pooled fund vehicles will be used, where appropriate, to ensure appropriate diversification at stock level.

- The risk that the day to day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk and believes that the risk is such that a passive manager should be employed to manage the majority of the Scheme's assets. As the Trustee believes that active management can still add value on a selective basis, active management is employed via the Diversified Growth Funds. This view also complements the Trustee's desire to ensure diversification within the Scheme's investment strategy.

- There is currency risk inherent in investment in overseas equity markets within the Diversified Growth Funds that the Scheme invests in.

- The documents governing the investment manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent. The managers are regulated by the Financial Conduct Authority ("FCA").

- The safe custody of the Scheme's assets is delegated to professional custodians, selected and monitored by the pooled fund providers.

- The Trustee recognises the importance of managing operational risks, such as counterparty risk. It works with its advisers and investment managers to understand the extent of such risks but delegates the day to day control of such risks to the managers.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Scheme are predominantly invested on regulated markets, or robustly collateralised if over-the-counter vehicles are used.

- The risk that target levels of liability hedging cannot be maintained as yields increase, due to there being insufficient assets available to meet the collateral calls associated with the Scheme's investments in leveraged LDI funds within the required timescales. The Trustee looks to mitigate this risk through a collateral management framework, whereby the Scheme's LDI manager is able to source cash to meet collateral calls by selling other assets under management, as set out under the Enhanced Service Agreement. This is underpinned by ongoing monitoring of the Scheme's asset allocation and collateral position.

- *Liquidity risk* refers to the ease with which assets are marketable and realisable. The Trustees recognise that there is *liquidity risk* in holding assets that are not readily marketable and realisable. This could result in being unable to meet member benefit payments or meeting collateral calls within the Scheme's LDI portfolio. Given the Trustees' long-term investment horizon, the Trustees believe that a degree of liquidity risk is acceptable because they expect to be rewarded for it. In addition, the Trustees are aware of the Plan's cashflow requirements and believe that risk is managed by having an appropriate amount of liquidity across the Scheme.

- The risk that the returns of certain assets classes and sectors may be significantly affected by climate change and ESG risks. The Trustee take ESG and climate risk into account in the selection, retention and realisation of the Scheme's investment managers. The Trustee's policies on ESG risks are set out later on this statement and in the Trustee's ESG Policy document.

Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets periodically with the Scheme's managers and receives regular reports from all the investment managers and Mercer.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered and will update this document accordingly.

4.2. Day-to-Day Management of the Assets

The Trustee delegates the day to day management of the Scheme's DB Section assets to professional investment management firms who are regulated by the FCA. The Trustee has taken steps to satisfy themselves that their managers have the appropriate knowledge and experience for managing the Scheme's investments and are carrying out the work competently.

The Trustee has determined a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

4.2.1. Investment Structure

The Trustee is responsible for the appointment and removal of the Scheme's investment managers. The following investment managers are employed by the Scheme for management of the DB assets:

- Legal & General Investment Management Limited ("LGIM")
- Schroder Investment Management Limited ("Schroders")
- BlackRock Investment (UK) Management Limited ("BlackRock")

The Scheme's bond assets are invested in passive, index-tracking funds. The Scheme employs active management in the areas where the Trustee believes the managers can truly add value above the market return after fees have been paid or where the managers are provided with a specialist mandate in relation to the management of assets (LGIM, BlackRock and Schroders Diversified Growth Funds).

The Scheme uses specialist managers who the Trustee believes are experts in their particular field. The manager structure and the role of each of the Scheme's investment managers are set out in the table below.

Manager	Mandate	Scheme Benchmark %
Matching Portfolio		**85.0**
LGIM	Passive Corporate Bonds	42.5
LGIM	LDI (including Gilts/Swaps/Cash)	42.5
Growth Portfolio		**15.0**
LGIM / Schroders / BlackRock	Diversified Growth Funds	15.0
Total		**100.0**

The role of each individual Investment Manager and their respective benchmarks are set out below. Various limitations and restrictions apply to the Scheme's investment managers. The purpose of these restrictions is to ensure diversification and suitability of investments. Full details can be found in the individual Investment Management Agreements.

4.2.2. LGIM (c. 90% of the Scheme's Assets)

LGIM manage a Matching Portfolio and a Diversified Growth Fund on behalf of the Scheme.

Passive Corporate Bond Portfolio

For the passive LGIM AAA-AA-A Bonds Over 15 Year Index Fund, LGIM are required to perform in line with the relevant benchmark index as follows:

Bond Section	Benchmark	Expected Tracking Error % p.a.
AAA-AA-A Bonds Over 15 Year Index	Markit iBoxx GBP Non-Gilts ex BBB 15 Yr+	±0.5 (for 2 years out of 3)

LDI Portfolio

The Trustee appointed LGIM to manage an LDI Portfolio in order to manage the Scheme's exposure to interest rate and inflation risks. The mandate allows for investment in a range of LGIM funds in order to meet the Scheme's objectives set out below.

- LGIM Single Stock Bond funds
- LGIM Matching Plus Gilt funds
- LGIM Matching Plus Swap funds
- LGIM Sterling Liquidity Cash fund

The aim of the LDI Portfolio is to hedge the inflation and interest rate exposure up to the Scheme's funding level on the Technical Provisions Basis (gilts +0.8%). This hedging target is reviewed regularly and is currently set to hedge 100% of the Scheme's interest rate and inflation exposure based on the liability profile from the 31 March 2021 actuarial valuation, allowing approximately for member movements and financial conditions at 31 March 2024.

For the avoidance of doubt, target hedge ratios allow for the hedging contribution provided by the Scheme's corporate bond assets held within the LDI mandate.

LGIM Diversified Fund

LGIM has been appointed by the Scheme to manage a Diversified Growth Fund ("DGF"). The DGF will invest in a broad range of asset classes to provide long-term investment growth. The long-term expected rate of return of the DGF is anticipated to be the Bank of England Base Rate + 3.75% per annum (gross of fees).

4.2.3. Schroders (c.5% of the Scheme's Assets)

Schroders has been appointed by the Scheme to manage a DGF. The Fund has a target return objective of ICE BofA Sterling 3-Month Government Bill Index + 4.5% per annum (gross of fees) over five to seven year periods, with a tracking error of two thirds of equity market volatility.

4.2.4. BlackRock (c.5% of the Scheme's Assets)

BlackRock has been appointed by the Scheme to manage a DGF. The Fund aims to achieve a return on investment, over the medium term, through a combination of capital growth and income which targets SONIA +3.0% (net of fees).

5. DC Section

5.1. Investment Objectives and Strategy

5.1.1. Investment Objectives

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits / retirement income streams.

The Trustee also recognises that members may not believe themselves qualified to take investment decisions. As such the Trustee makes available a default investment option to members, which is described in section 5.1.4.

The Trustee has received advice with regards to member needs throughout their working lives for the purposes of the default option and a set of strategic objectives have been agreed reflecting these needs, which are also described in section 5.1.4.

5.1.2. Investment Strategy

In choosing the Scheme's investment options, it is the policy of the Trustee to consider:

- A full range of asset classes, including alternative asset classes;
- The suitability of different styles of investment management and the need for investment manager diversification;
- The suitability of each asset class within a defined contribution scheme; and
- The need for appropriate diversification.

The Trustee makes available a range of funds which they believe provide appropriate choices for members' different saving objectives, risk profiles and time horizons.

5.1.3. Lifestyle Strategies

The Scheme offers members the option of having their funds invested in three lifestyle strategies, where members' funds are invested in higher risk assets, such as equities and multi-asset funds when members are further from retirement, before switching into funds designed to broadly match an income drawdown benefit (with an allowance for tax free cash), fixed annuity (with an allowance for tax free cash) or cash.

For members who are planning a flexible approach to drawing benefits at retirement or planning to use income drawdown during their retirement, the BGPS Drawdown Lifestyle switches into diversified growth and then switches to a multi-asset fund (which has been designed for the purposes of targeting drawdown) and a small proportion of cash during the de-risking phase.

For members planning to take cash at retirement, the BGPS Cash Lifestyle switches into diversified growth and then to cash during the de-risking phase.

For members planning to buy an annuity at retirement, the BGPS Annuity Lifestyle switches into bonds and cash during the de-risking phase.

The portfolios and funds used across the three lifestyle strategies are summarised in the following table.

Lifestyle strategy	**Components**
BGPS Drawdown Lifestyle **(the "Default Option")**	***Growth Phase****: BGPS Equity Fund* ***Consolidation Phase****: BGPS Diversified Growth Fund* ***Pre-Retirement Phase****: BGPS Pre-Drawdown Fund*
BGPS Annuity Lifestyle (a technical Default)	***Growth Phase****: BGPS Equity Fund* ***Consolidation Phase****: BGPS Diversified Growth Fund* ***Pre-Retirement Phase****: BGPS Pre-Retirement Fund, BGPS Cash Fund*
BGPS Cash Lifestyle (a technical Default)	***Growth Phase****: BGPS Equity Fund* ***Consolidation Phase****: BGPS Diversified Growth Fund* ***Pre-Retirement Phase****: BGPS Cash Fund*

**see Appendix A and Appendix B for the lifestyle matrices and details of the funds used.*

5.1.4. The Default Option

The Scheme provides a Default Option – the BGPS Drawdown Lifestyle - because:

- It is believed that a significant proportion of the membership are either unengaged in or unable to decide where their DC savings should be invested;
- A significant proportion of the membership are expected to have broadly similar investment needs;
- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by Regulations to have a Default Option;
- The Trustee believes that the presence of an effective Default Option will help deliver better outcomes for members at and into retirement.

The main objective of the Default Option is to provide better member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.

The Trustee believes that a lifestyle strategy is an appropriate default option. The principal objectives of the Default Option are:

- To manage the principal investment risks faced by an average member during their membership of the Scheme;
- To avoid making a decision for a member as to how they will use their savings at retirement. This will mean the fund invests in a blend of bonds, cash and diversified growth at retirement;
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members over 20 years from retirement;
- To progressively invest in funds which are expected over the long-term to deliver good returns relative to inflation, while seeking to control the level of volatility in fund values compared to equities, for members 10 to 20 years from retirement whose DC savings are expected by then to have grown to a size where the value at risk is material.
- During the last 10 years before retirement, to increasingly invest in lower risk funds which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

Full details of the Default Option are provided in Appendix A.

In choosing what is believed to be an appropriate default, the Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, the level of replacement income that members are likely to require and the likely return on investment after the deduction of charges payable on the funds used by the default option.

The Trustee selected a lifestyle strategy targeting flexibility at retirement as the Default Option as it reflects the option that is considered most likely to be appropriate for the majority of members who are unable to decide how they wish to take their retirement benefits or might take their benefits in a combination of ways and at different points in time. This option has a similar structure for members that would target income drawdown. The design of the default also incorporates advice with regards to member needs, by which the following strategic investment objectives have been set and agreed:

	Return Requirements	**Expected Risk Requirements**
Growth Phase	CPI + 4-5% p.a.	c.15-20% p.a.
Consolidation Phase	CPI + 3% p.a.	c.10-12% p.a.
Pre-Retirement Phase	CPI + 1-2% p.a.	c.4-6% p.a.

Further to the investment risks noted under 4.1.3, the Default Option manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the Default Fund, the Trustee has explicitly considered the trade-off between risk and expected returns.

Assets in the Default Option are invested in a manner that aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. The majority of the

Scheme's assets are invested in regulated products that trade mainly on regulated markets. The risks and financially material considerations identified by the Trustee in Section 7 of this Statement are also applicable to the Default Fund. The Trustee's policy in relation to the managers used by the Scheme are outlined in Section 8 and are also applicable to the Default Fund.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership might behave at retirement, the Trustee believes that the current default option is appropriate and they will continue to review this regularly, and more strategically at least triennially, or after significant changes to the Scheme's demographic, if sooner.

5.1.5. Principles in Relation to the Additional Default Options

In April 2018 the Department for Work and Pensions ("DWP") amended the Occupational Pension Schemes (Charges and Governance) Regulations 2015, effective from 6 April 2018. In particular, the DWP's guidance in association with new regulations clarified the government's policy in relation to default investment arrangements in the receiving scheme when a member with self-select funds is mapped into new funds which most closely reflect their original choice. This applies when mapping member savings between arrangements but also to in-scheme changes.

The Scheme made a number of in-scheme changes to members' investment options in 2018. As part of these exercises and consistent with investment consultancy and legal advice, previous self-select funds were mapped across to new funds without members' consent. As a result, additional 'technical' default options were created. In the first half of 2020, the Trustee undertook an exercise to consolidate the majority of the additional default options into the BGPS Drawdown Lifestyle (the current default option). However, the Trustee agreed to retain the following as additional defaults:

- BGPS Annuity Lifestyle
- BGPS Cash Lifestyle

In March 2020, the Threadneedle Property Fund, the underlying fund used by the BGPS Property Fund, was suspended and no assets could be in/disinvested into/from the Fund. Consistent with investment consultancy and legal advice, it was decided that all ongoing contributions into the BGPS Property Fund would be invested in the BGPS Cash Fund until the suspension on the underlying fund used by the BGPS Property Fund is lifted. As a result, an additional 'technical' default option was created with monies being invested in the BGPS Cash Fund without members' consent. In November 2020, the suspension of the Threadneedle Property Fund was lifted.

The following applies to the Additional Default Options, as specified:

Overall Trustee's Aims and Objectives

To provide members with a fund that is a suitable replacement, having considered expected risk and return, for one that has been removed previously either on a permanent or temporary basis.

The realisation of investments

The Trustee has considered these manager and mandate appointments noting that the selection, retention and realisation of assets within the pooled funds are delegated to the respective investment manager in line with the mandates of the funds.

Aims, Objectives and Policies for the BGPS Annuity Lifestyle and BGPS Cash Lifestyle Options

The aims for these two lifestyle options and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To match decisions made by these members previously as to how they will use their savings at retirement.

  The options invest in a blend of bonds and cash for the BGPS Annuity Lifestyle and cash for the BGPS Cash Lifestyle at retirement to align with the targets of prior strategy choices.

- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members over 20 years from retirement.

  The equity funds invest primarily in equity securities issued by companies. The strategy invests generally in shares of companies domiciled in or exercising a significant part of their economic activity in, developed markets and emerging markets. The BGPS Diversified Growth Fund invests in a range of asset classes including equities, bonds and a number of alternative asset classes to achieve long-term capital growth.

- To progressively invest in funds which seek to control the level of volatility in fund values compared to equities for members 10 to 20 years from retirement, whose DC savings are expected by then to have grown to a size where the value at risk is material.

  Both strategies start de-risking from equities into less volatile assets, such as diversified growth, bonds and cash, from 20 years to retirement. This de-risking seeks to control the level of fund volatility in the run up to retirement to help with a view to meeting specific outcomes.

Aims, Objectives and Policies for the BGPS Cash Fund

The aims of the BGPS Cash Fund, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To offer an option for members to reduce investment risk.

  The returns from the cash fund are expected to be less volatile by nature of these price movements from these asset classes. Members can use these funds as an option to reduce risk.

Risk in relation to the Additional Default Options

The Trustee has explicitly considered the trade-off between risk and expected returns for the funds offered to members. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members.

In selecting the funds that are classified as additional defaults, the Trustee considers the liquidity of the investments in the context of the likely needs of members. The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
Inflation Risk	The funds underlying the growth portfolio of the BGPS Cash Lifestyle and BGPS Annuity Lifestyle lifestyles invest in a diversified range of securities which are considered likely to grow in excess of inflation. This risk does not specifically apply to the BGPS Cash Fund. The BGPS Cash Fund objective is to provide protection to members.	Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.
Pension Conversion Risk	The BGPS Cash Lifestyle and BGPS Annuity Lifestyle options have a specific objective to target a different method of taking benefits. The BGPS Cash Fund objective is to provide protection to members and is suitable for a member who is close to retirement and targeting cash at retirement.	The Trustee makes available funds that would be appropriate for different retirement choices at retirement.
Market Risk	The underlying assets for each fund are invested in a diversified range of securities which are considered likely to increase in value over longer time horizons.	Monitors the performance of the funds on a quarterly basis.
Currency Risk	The funds underlying the growth portfolio of the BGPS Cash Lifestyle and BGPS Annuity Lifestyle invest in UK equities and currency-hedged overseas equities. Within the consolidation portfolios, any currency decisions are at the discretion of the DGF managers. This risk does not specifically apply to the BGPS Cash Fund as all holdings are Sterling based.	Monitors the performance of funds on a quarterly basis. Considers the impact of the movements in foreign currencies relative to pound sterling.
Liquidity Risk	Funds all have daily liquidity.	Units may be realised quickly if required from daily dealing funds.
Environmental, Social and Governance Risk	The Trustee’s policy on ESG risks is set out in Section 8 of this Statement.	Review of ratings but changes will not be driven by these ratings.

The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire. The risks and financially material considerations identified by the Trustee in Section 8 of this Statement and the Trustee's policy in relation to the managers used by Scheme as outlined in Section 9 of this Statement are also applicable to the Additional Default Options.

5.1.6. Alternative Lifestyle Options

Alternative lifestyle options are offered for those members who believe that the risk profile of the Default Option is not appropriate to their needs, but otherwise do not want to take an active part in selecting where contributions are invested.

The alternative lifestyle options manage the principal risks faced by members during their membership, but target taking their retirement benefits as cash at retirement or purchasing an annuity.

Some members will be invested in the alternative lifestyle options (BGPS Cash Lifestyle and BGPS Annuity Lifestyle) due to mappings without consent, as outlined in Section 5.1.5 of this Statement.

5.1.7. Self-Select Fund Range

The self-select fund range allows members who do not wish to invest in one of the lifestyle strategies some flexibility in their selection of funds. The self-select fund range covers a broader spectrum of investment risk levels and investment approaches, so that members can tailor the investment of their DC savings more closely to their personal needs and attitude to risk – although it cannot be expected to cover all the investment needs of all members.

The range of self-select funds is set out in Appendix C.

5.1.8. White Labelled Funds

The Trustee has established white labelled funds to enable them to implement combinations of funds in a blended fund structure and simplify the process of replacing or changing managers if required in future. White-labelling is also expected to simplify the process of selecting funds for members to encourage engagement.

The white labelled funds are constituents of the lifestyle strategies and are offered as self-select options.

Rebalancing of the underlying funds will be considered annually by the Trustee. There is no automatic or compulsory rebalancing within the blends.

5.2. Risk Management and Measurement

The Trustee has considered risk from a number of perspectives. The principal risks that members face, along with the policies and actions taken by the Trustee to mitigate these, are as follows:

- **Risk within Default -** The risk that the investment profile of the default option is unsuitable for the requirements of some members.

- *The Trustee offers alternative lifestyle options and a range of self-select options for members* to *choose from to set strategies reflecting their own risk preferences, if required.*

- **Inflation Risk** - The risk that the investment return over members' working lives does not lead to adequate savings at retirement and, consequently, provides an inadequate income in retirement.

  - *For members further from retirement, the lifestyle strategies invest in return-seeking assets during the growth phase, which are expected to produce returns well in excess of inflation over the longer term. These funds are also included in the self-select range.*

- **Conversion Risk** - The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.

  - *Each of the lifestyle strategies seek to track, as closely as possible, the method by which members invested in the strategies are expected to take their benefits upon conversion – mitigating the impact of any increase in costs.*

- **Volatility/Market Risk** - The risk that unfavourable market movements in the years just prior to retirement can lead to a substantial reduction in the anticipated level of retirement benefits.

  - *The lifestyle strategies de-risk over time and members who are closer to retirement will be invested in a combination of lower risk assets. The component funds are also included in the self-select range.*

- **Performance Risk** -The risk that the investment manager underperforms the chosen benchmark.

  - *The Trustee offers a range of passively managed funds which are expected to have a lower chance of underperforming. The Trustee will regularly monitor fund performance focusing on this risk.*

- **Counterparty Risk** - The risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value.

  - *This risk is managed by investing in a range of pooled funds that offer suitable counterparty protection. Exposure is kept to a minimum for efficient portfolio management purposes.*

- **Liquidity Risk** - The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members.

  - *The pooled funds that members are invested in are all daily dealing and units may be realised quickly if required.*

- **Environmental, Social and Governance Risk** - The risk that ESG factors, which can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance, are not taken into account.

- *This is delegated to external investment managers.*
- *The Trustee's policy on ESG risks is set out in Section 7 of this Statement.*
- *Trustee has an ESG policy setting out, in further detail, the key principles that have been established, and the Trustee's approach to considering sustainability risk and other ESG factors.*

5.3. Day-to-Day Management of the Assets

The fund range offered to members is accessed through the investment fund platform provided by LGIM.

Day-to-day management of the assets is delegated to professional investment managers who are all authorised and regulated. The range of funds underlying the options offered to members incorporates funds from a number of investment managers.

The Trustee assesses the continuing suitability of the Scheme's investment managers on a periodic basis. The Trustee's investment adviser provides support and advice in monitoring the investment managers, both in the form of written reports or attendance at meetings as required by the Trustee.

The Trustee will review the appointment of any investment manager for any reason they consider appropriate.

5.4. Use of Illiquid Assets in the Default Option

The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Scheme's default arrangement includes no direct allocations to illiquid investments.

The default strategy does have indirect exposure to illiquid assets through its investment in the BGPS Diversified Fund, which invests 75% in the LGIM Diversified Fund and the 25% in the Insight Broad Opportunities Fund, which make up part of the glidepath of the default from 20 years to retirement

The Trustee is comfortable indirectly investing in a small proportion of illiquid assets through the BGPS Diversified Fund in order to experience the potential for higher returns and benefits of diversification relative to more traditional asset classes that illiquid assets can offer. The Trustee notes that listed vehicles will exhibit a greater relationship with equity markets

In selecting investments for the default arrangement, the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. For any future investment, the Trustee will carefully consider whether the investment provides value for members taking account the potential for returns and associated risks from illiquid assets. It is the Trustee's policy to review the allocation of the default investment strategy on at least a triennial basis. Such reviews will include whether the incorporation of illiquid asset investments is appropriate.

6. AVCs

The Trustee is responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustee reviews performance on a regular basis and takes advice on their suitability. Assets in respect of members' Additional Voluntary Contributions are invested with LGIM. The funds available and performance objectives are in line with the wider DC arrangements as set out in Section 4. The Scheme also has a number of legacy with-profits holdings with Utmost Life (managed by Clerical Medical), Phoenix Life and Prudential Assurance funds.

7. Advisors and Scheme Governance

7.1. Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. Where the Scheme's assets are managed via pooled funds, the custody arrangements for the Scheme's investments have been made by each Investment Manager with their preferred custodian.

7.2. Actuary

The Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The latest actuarial valuation was performed as at 31 March 2021 by the Scheme Actuary. Ms Sophie Young of Mercer Limited is the appointed Scheme Actuary.

7.3. Investment Consultant

Whilst the day-to-day management of the Scheme's assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers are based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

7.4. Monitoring the Scheme's Investment Managers

The Trustee retains the assistance of Mercer as investment advisor to provide assistance with monitoring the investment managers and on strategic investment issues.

8. Policy on Socially Responsible Investment and Corporate Governance

The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee key stewardship themes are:

- **Environment** – reduction in carbon emissions and alignment with the Paris Agreement on climate change;
- **Governance** – diversity, equity and inclusivity.

The Trustee has determined these priorities based on the Trustee Directors' ESG beliefs, taking into account the Principal Employer's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustee's policies on stewardship and engagement. The Trustee meets with the appointed investment managers on a regular basis and as part of this the managers are asked to explain how their policies are aligned with the Trustee's priorities.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments. The Trustee has advised the Scheme's investment managers that they will be expected to vote the Scheme's UK shares in accordance with the guidelines set down by the UK Stewardship Code and UK Corporate Governance Code and encourages them to exercise those rights on behalf of members' interests when they believe there could be a potential financial impact on the funds. The investment managers have full discretion to vote in favour of actions outside these guidelines but will be expected to report to the Trustee with an explanation of its actions. The Trustee will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The Trustee will consider the ESG ratings provided by Mercer and how each investment manager embeds ESG factors into its investment process. When appointing managers, the Trustee will also consider how the investment manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. The Trustee reviews the ESG rating provided by Mercer as part of the Scheme's regular quarterly performance reporting. A change in ESG rating does not mean that the fund will be removed or replaced automatically. Managers will also be expected to report on their own ESG policies as and when requested by the Trustee.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The Trustee does not take into account members' views on non-financial matters, including their ethical views, in the selection, retention and realisation of investments, given the difficulty in determining members' views and applying these to a single Scheme investment strategy. However, this position will be reviewed over time (for example, following the outcome of member surveys).

The DC Section of the Scheme currently offers members a specialist sustainable fund which makes up 100% of the Growth Phase across all available lifestyle options and as a self-select option.

The Employer's views on ESG matters will be accounted for, noting that they may not necessarily result in a change in the Trustee's investment decisions.

The ESG Policy contains further details regarding how the Trustee manages ESG risks and opportunities.

Members' financial interests

The Trustee has requested that the investment managers have the financial interests of the members as their first priority when choosing and reviewing investments.

9. Manager Arrangements

9.1. Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustee will seek guidance from the investment consultant, where appropriate, for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

The Trustee will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Where the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to review the appointment.

9.2. Evaluating Investment Manager Performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year and 3 years (where available). The Trustee reviews the absolute performance and relative performance against a suitable index used as the benchmark, and against the manager's stated target performance objective (over the relevant time period) on a net of fees basis.

The Trustee's focus on long term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or the team responsible;
- There is a change in the underlying objectives or process of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

9.3. Portfolio Turnover Costs

The Trustee does not currently actively monitor portfolio turnover costs within the DB Section. The majority of the investment manager performance objectives are set net of all fees and costs and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some MiFID II reporting from their investment managers but does not currently analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

The Trustee monitors portfolio turnover costs for the DC and AVC arrangements on an annual basis as part of its value for members assessment.

9.4. Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. The Trustee will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The basis on which the manager was appointed changes materially (eg manager fees or investment process)
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

10. Realisation of Assets

In general, the Scheme's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments. The Scheme's investment managers have responsibility for generating cash as and when required for benefit outgoings.
The Trustee has a cashflow policy process for the DB Section to ensure that there are sufficient funds available to meet benefit payments and other expenses. The cashflow policy is reviewed on a quarterly basis.

11. Fee Structures

The Investment Consultant is typically remunerated on a time cost basis, i.e. reflecting the time spent on a particular issue. However, where it is possible to pre-determine the scale of a particular project, it will work to an agreed fixed fee.

DB Section

The Investment Managers levy fees based on a percentage of the value of the assets under management.

DC Section

The charges for the investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustee annually to ensure that they represent "value for money" relative to the needs of the membership.

The Scheme is a qualifying scheme for auto-enrolment purposes. The Trustee monitors the compliance of the Default Option with the charge cap introduced by the Pensions Act 2014, which applies from April 2015.

Details of the investment manager fees can be found in Appendix C.

12. Compliance with this Statement

The Trustee will review this Statement regularly on the advice of Mercer. The Trustee will monitor compliance with this Statement annually, or after any significant change in strategy or manager structure.

13. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Company which it judges to have a bearing on the stated Investment Policy.

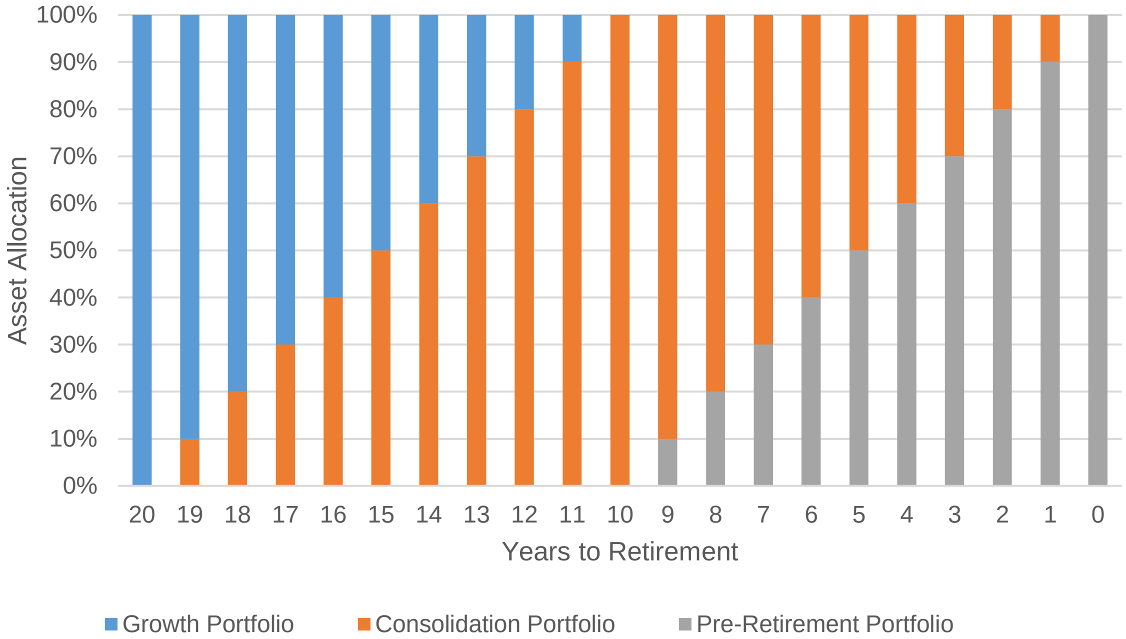
This review will occur no less frequently than every three years to coincide with the Actuarial Valuation and the review of the DC Default arrangements. Any such review will again be based on written, expert investment advice and will be undertaken in consultation with the Company.

The Chair's statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding year and will require this Statement to be appended each year.

Appendix A – Default Option – BGPS Drawdown Lifestyle

The Default Option targets a blend of bonds and cash to represent an income drawdown.

The chart below shows the lifestyling structure in the 20 years prior to retirement.



The current underlying fund and managers used by the Default Lifestyle are detailed below.

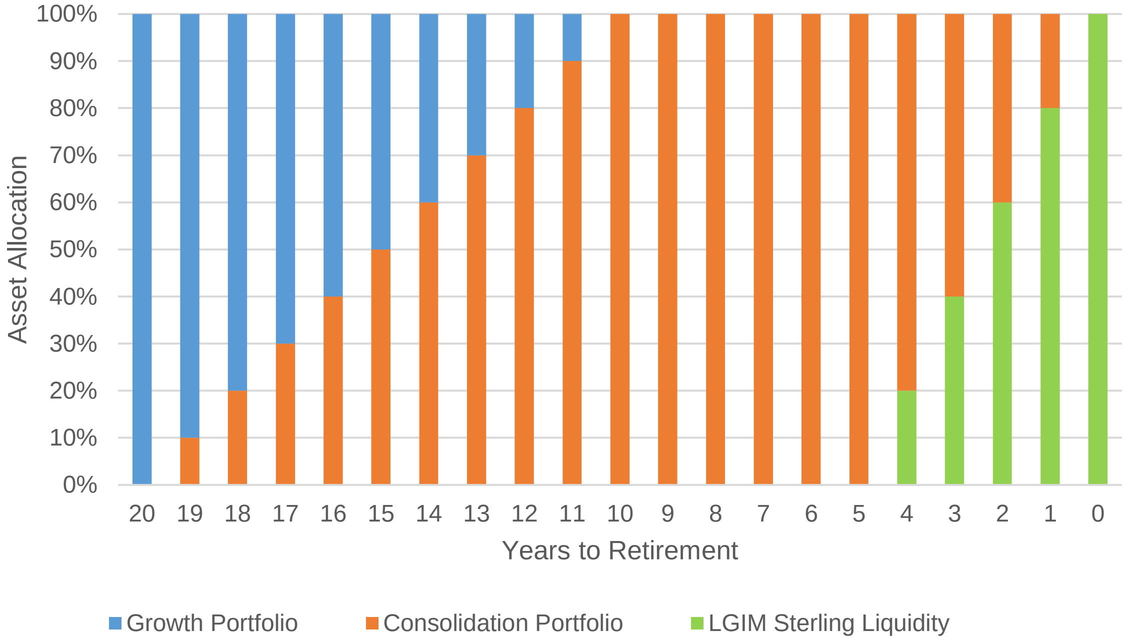
	Fund Name	Current Underlying Fund(s)
Growth Portfolio	BGPS Equity Fund	100% LGIM Future World Global Equity Index Fund - GBP Hedged
Consolidation Portfolio	BGPS Diversified Growth Fund	75% LGIM Diversified Fund 25% Insight Broad Opportunities Fund
Pre-Retirement Portfolio	BGPS Pre-Drawdown Fund	75% LGIM Retirement Income Multi Asset Fund 25% LGIM Sterling Liquidity Fund

The Trustee has considered risks in relation to the default from a number of perspectives. The Trustee considers how these risks are managed and monitored. The approach taken for the default does not differ from that of the Scheme. The considered risks are in relation to what the Trustee considers ‘financially material considerations’. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member’s age and their Selected Retirement Age. It is partly for this reason that the default investment option is a lifestyle strategy.

Taking into account the demographics of the Scheme’s membership and the Trustee’s views of how the membership will behave at retirement, the Trustee believes that the default strategy outlined in this document is appropriate. In order to ensure this remains appropriate the Trustee will undertake a review of the default investment option, at least triennially, or after significant changes to the Scheme’s demographic, if sooner.

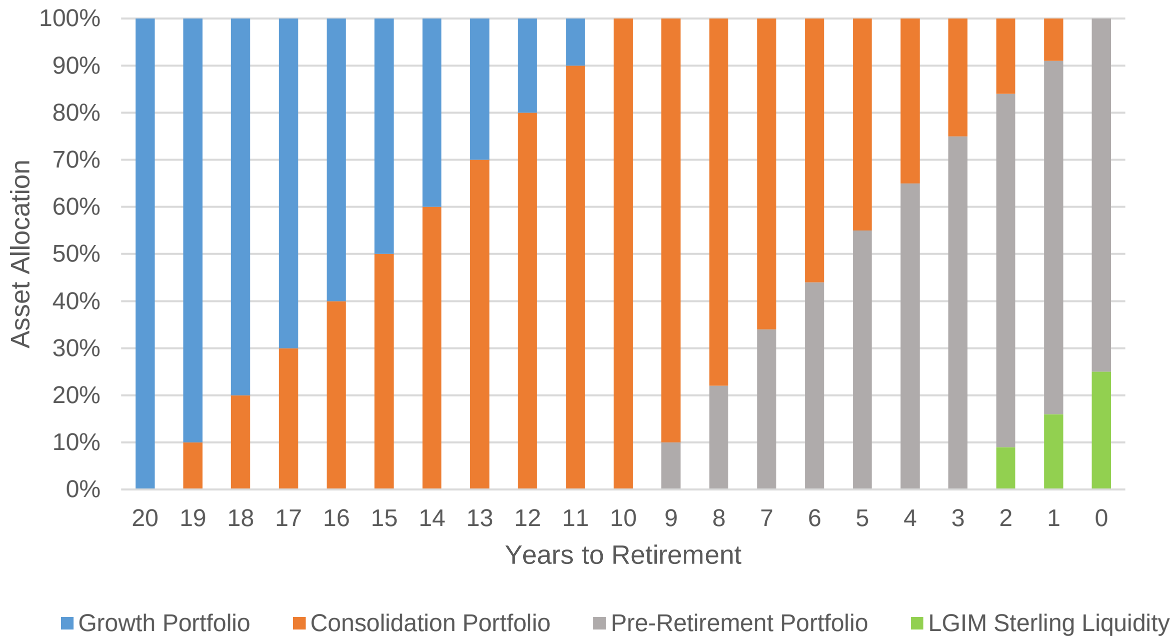
Appendix B – Alternative lifestyle options / Additional Default Option

The BGPS Cash Lifestyle option targets a cash fund on retirement. The lifestyling structure is shown below.



	Fund Name	Current Underlying Fund(s)
Growth Portfolio	BGPS Equity Fund	100% LGIM Future World Global Equity Index Fund - GBP Hedged
Consolidation Portfolio	BGPS Diversified Growth Fund	75% LGIM Diversified Fund 25% Insight Broad Opportunities Fund
Pre-Retirement Portfolio	BGPS Cash Fund	100% LGIM Sterling Liquidity Fund

The BGPS Annuity Lifestyle option targets an investment of mainly bonds with some cash at retirement to represent the purchase of an annuity at retirement. The lifestyling structure is shown below.



	Fund Name	Current Underlying Fund(s)
Growth Portfolio	BGPS Equity Fund	100% LGIM Future World Global Equity Index Fund - GBP Hedged
Consolidation Portfolio	BGPS Diversified Growth Fund	75% LGIM Diversified Fund 25% Insight Broad Opportunities Fund
Pre-Retirement Portfolio	BGPS Pre-Retirement Fund BGPS Cash Fund	75% LGIM Pre-Retirement Fund 25% LGIM Sterling Liquidity Fund

APPENDIX C - Self-select fund range

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles.

Fund Name	Objective	Benchmark / Comparator	TER (p.a.)
BGPS Sterling Hedged World Equity Fund (*LGIM World ex UK Developed Equity Index – GBP Hedged fund*)	The fund aims to track the performance of the benchmark (less withholding tax where applicable) - GBP Hedged to within +/-0.5% p.a. for two years out of three.	FTSE Developed World (ex UK) Index - GBP Hedged	0.13%
BGPS Global (50:50) Equity Fund (*LGIM Global Equity Fixed Weights (50:50) Index Fund*)	The fund aims to provide diversified exposure to the UK and overseas equity markets.	Composite of 50/50 distribution between UK and overseas	0.11%
BGPS World Equity Fund *(LGIM World (ex UK) Developed Equity Index Fund*)	The fund aims to track the performance of the FTSE Developed World (ex UK) Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.	FTSE Developed World (ex UK) Index	0.15%
BGPS UK Equity Fund (*LGIM UK Equity Index Fund*)	The fund aims to track the performance of the benchmark (less withholding tax where applicable) to within +/-0.25% p.a. for two years out of three.	FTSE All-Share Index	0.06%
BGPS Emerging Markets Fund (*LGIM World Emerging Markets Equity Index Fund*)	The fund aims to track the performance of the FTSE Emerging Index (less withholding tax where applicable) to within +/-1.5% p.a. for two years out of three.	FTSE Emerging Index	0.21%
BGPS Islamic Equity Fund (*LGIM HSBC Islamic Equity Index Fund*)	The fund aims to create long-term appreciation of capital through investment in a well-diversified portfolio of equities listed worldwide, as defined by the relevant world index, in a manner that is consistent with the principles of the Shariah law.	Dow Jones Islamic Titans 100 Index	0.35%
BGPS Diversified Growth Fund (*blend of 75% LGIM Diversified Fund and 25% Insight Broad Opportunities Fund*)	Composite of underlying funds	Composite of underlying funds	0.39%
BGPS Property Fund (*LGIM PMC Threadneedle Property Fund*)	The fund aims to generate total returns (from income and capital appreciation) and outperform its benchmark, over rolling 3-year	AREF/IPD UK Quarterly Property Fund	0.75%

	periods, after the deduction of charges. It also aims to deliver positive environmental or social outcomes in accordance with the Real Estate Responsible Investment Policy Statement.	Index (weighted average)	
BGPS Future World Fund (*LGIM Future World Global Equity Index Fund*)	The investment objective of the fund is to track the performance of the Solactive L&G ESG Global Markets Index - GBP Hedged (less withholding tax where applicable) to within +/-0.60% p.a. for two years out of three.	FTSE All-World ex CW Climate Balanced Factor Index	0.15%
BGPS Corporate Bond Fund (*LGIM AAA-AA-A Corporate Bond All Stocks – Index Fund*)	The fund aims to track the performance of the Markit iBoxx £ Non-Gilts (ex-BBB) Index to within +/-0.5% p.a. for two years out of three.	Markit iBoxx £ Non-Gilts (ex-BBB) Index	0.07%
BGPS Index Linked Gilts Fund (*LGIM All Stocks Index-Linked Gilts Index Fund*)	The fund aims to track the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.	FTSE Actuaries UK Index-Linked Gilts All Stocks Index	0.05%
BGPS Gilts Fund (*LGIM All Stocks Gilts Index Fund*)	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.	FTSE Actuaries UK Conventional Gilts All Stocks Index	0.06%
BGPS Pre-Retirement Fund (*LGIM Future World Annuity Aware Fund*)	The fund aims to improve potential outcomes for investors likely to purchase traditional fixed annuities.	Composite of gilts and corporate bond funds	0.15%
BGPS Retirement Income Fund (*LGIM Retirement Income Multi Asset Fund*)	The fund aims to provide long-term investment growth up to and during retirement, and to facilitate the drawdown of retirement income.	Bank of England base rate +3.5% p.a.	0.38%
BGPS Cash Fund (*LGIM Sterling Liquidity Fund*)	The aim of the fund is to provide diversified exposure and a competitive return in relation to SONIA.	SONIA	0.14%

Source: LGIM and investment manager as at 30 June 2024

*The BGPS Property Fund has an effective TER, also referred to as the Property Expense Ratio, of 2.0% which includes the full costs of trading. This description is different to when the Scheme was established – the TER in the above table reflects the management fee alone for the purposes of reporting consistently.