THE NEWMOND PENSION PLAN

Statement of Investment Principles – September 2024

1. Introduction

Baxi Group and Newmond Pension Trustees Limited, the Trustee of the Newmond Pension Plan ("the Plan") 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 Plan'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 Plan's funding policy, input has also been obtained from the Plan's Actuary.

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

2. Investment Objectives and Strategy

2.1. 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 terms which are consistent with the long term assumptions of the Actuary in determining the funding of the Plan
- To control the various funding risks to which the Plan 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

2.2. Investment Strategy

The Trustee recognises that the investment strategy should take account of the Plan's current funding level, liability profile and long term funding objectives. The allocation to return seeking assets may be reduced from time to time through taking advantage of any significant outperformance in the market, through consultation with both the Trustee and Company.

The Trustee has determined, based on written expert advice from Mercer Limited, a benchmark mix of asset types to meet the Plan's funding objectives. This is set out in the table below and the Trustee believes this strategy is appropriate for dealing with the risks outlined in section 3.

Asset Class	Plan Benchmark %
Matching Portfolio	**90.0**
UK Corporate Bonds	45.0
Liability Driven Investment ("LDI")*	45.0
Growth Portfolio	**10.0**
Diversified Growth Fund	10.0
Total	**100.0**

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

Following the implementation of the LDI portfolio the Trustee's objective is to hedge the inflation and interest rate exposure up to the Plan's funding level on the Technical Provisions Basis (c. 100% on the gilts +0.5% basis at the point of implementation).

3. Risk Management and Measurement

There are various risks to which the Plan 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 Plan'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)

  - Interest rate risk (the risk that the assets do not move in line with the value placed on the Plan'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 Plan.

- 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 Plan's accruing liabilities as well as producing more short-term volatility in the Plan's funding position.

- Recognising the above risks, the Trustee regularly reviews its stated objectives to ensure they continue to reflect the Plan's liabilities, contribution levels and Trustee's attitude to risk. In turn, the Trustee regularly seeks investment advice to ensure that the Plan'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 Plan'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 Plan's investment strategy.

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

- 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 Plan. 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 Plan'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 Plan are predominantly invested on regulated markets, or robustly collateralised if over-the-counter vehicles are used.

- 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.

- 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 Plan's investments in leveraged LDI funds within the required timescales. The Trustee looks to mitigate this risk through a collateral management framework, whereby the Plan'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 Plan'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 Plan.

Arrangements are in place to monitor the Plan'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 Plan's managers and receives regular reports from all the investment managers and Mercer Limited.

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

4. Day-to-Day Management of the Assets

The Trustee delegates the day to day management of the Plan's 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 Plan'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.

The Plan's assets are split between those relating to the main Plan and those relating to Additional Voluntary Contributions ("AVCs").

4.1. Investment Structure

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

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

The Plan's bond assets are invested in passive, index-tracking funds. The Plan 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 (Schroders and Insight Diversified Growth Funds).

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

Manager	Mandate	Plan Benchmark %
Matching Portfolio		**90.0**
LGIM	Passive Corporate Bonds	45.0
LGIM	LDI	45.0
Growth Portfolio		**10.0**
Schroders	Diversified Growth Fund	5.0
Insight	Diversified Growth Fund	5.0
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 Plan'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. LGIM (90% of the Plan's Assets)

LGIM manage two portfolios on behalf of the Plan, a passive corporate bond portfolio and a LDI portfolio.

4.2.1. Passive Corporate Bond Portfolio

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)

4.2.2. LDI Mandate

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

- LGIM Over 5 Year Index Linked Gilt Index fund
- LGIM Single Stock Bond funds
- LGIM Matching Plus Gilt funds

- LGIM Matching Plus Swap funds
- LGIM Sterling Liquidity Cash funds

The aim of the mandate is to hedge the inflation and interest rate exposure up to the Plan's funding level on the Technical Provisions Basis (gilts + 0.5%). This hedging target is reviewed regularly and is currently set to hedge 100% of the Plan's interest rate and inflation exposure based on the liability profile from the 31 March 2021 actuarial valuation, and rolled forward to reflect 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 Plan's corporate bond assets.

4.3. Schroders (5% of the Plan's Assets)

Schroders has been appointed by the Plan to manage the Diversified Growth Fund. 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.

4.4. Insight (5% of the Plan's Assets)

Insight has been appointed by the Plan to manage a Diversified Growth Fund. The fund aims to achieve a target of 3 month sterling SONIA + 4.5% per annum (gross of fees) over rolling 5 year periods.

4.5. Additional Assets

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 Plan also has a number of legacy with-profits holdings with Utmost Life (Clerical Medical), Phoenix Life and Prudential Assurance funds.

5. Advisors and Plan Governance

5.1. 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 Plan's assets are managed via pooled funds, therefore the custody arrangements for the Plan's investments have been made by each Investment Manager with their preferred custodian.

5.2. Actuary

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

5.3. Investment Consultant

Whilst the day-to-day management of the Plan'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.

5.4. Monitoring the Plan's Investment Managers

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

6. 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's 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 Plan's investment managers that they will be expected to vote the Plan's UK shares in accordance with the guidelines set down by the UK Stewardship Code and UK Corporate Governance Code. 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 Plan'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 Plan investment strategy. However, this position will be reviewed over time.

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

7. Manager Arrangements

7.1. 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 Plan 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.

7.2. Evaluating Investment Manager Performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. 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 is 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.

All of the appointed investment managers are remunerated by a fee calculated as a percentage of assets under management.

7.3. Portfolio Turnover Costs

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 which they aim to review on an annual basis to understand the full costs incurred. 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 will review the MIFID II reporting for their investment managers to understand the full costs incurred on an annual basis.

7.4. Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. For open-ended funds, there is no set duration for the manager appointments. 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.

8. Realisation of Assets

In general, the Plan's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments. The Plan's investment managers have responsibility for generating cash as and when required for benefit outgoings.

9. Fee Structures

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

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.

10. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually, or after any significant change in strategy or manager structure.

11. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspects of the Plan, 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. Any such review will again be based on written, expert investment advice and will be undertaken in consultation with the Company.