

The Calor Group Retirement Benefits Plan

Statement of Investment Principles

This document is the Statement of Investment Principles (the 'Statement') for The Calor Group Retirement Benefits Plan (the 'Plan').

Background information on this Statement

This Statement has been drawn up by the Trustee of the Plan, Calor Pension Trust Limited (the 'Trustee'). It sets out the principles governing investment decisions made by the Trustee in relation to the Plan.

The Statement is a legal requirement of the Pensions Acts 1995 as amended by the Pensions Act 2004, the Occupational Pension Plans (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 as amended (collectively referred to as the 'Pensions Acts'). For the avoidance of doubt the Investment Arrangements summary (Appendix C) does not legally comprise part of the Statement.

In preparing this document the Trustee has taken into account the requirements of the Pensions Acts. In addition this Statement is designed to fulfil the spirit of the Myners Principles, first published in 2001. The principles set out in this Statement are also consistent with the Trustee's Statement of Funding Principles.

The investment powers of the Trustee are set out in Clauses 6.1 to 6.3 of the Plan's Constitutional Rules, dated 17 September 2014. This statement is consistent with those powers.

Contents of this Statement

The Statement covers the following principles:

1. Governance arrangements
2. Investment objectives
3. Risk management policies
4. General investment policies
5. Agreeing and reviewing this Statement
6. Investment arrangement details

1. Governance arrangements

Overview of the arrangements

The Trustee has ultimate responsibility for the management of the investment arrangements of the Plan and its assets. In discharging these responsibilities, the Trustee has established clear Investment Objectives setting out what it is aiming to achieve. The Investment Objectives relate to the overall solvency position of the Plan and are explained in more detail in the next section of this Statement. The solvency position is an assessment of the amount of assets which have been put aside to meet the liabilities of the Plan.

The Trustee has considered a number of different governance models that could be adopted in order to best achieve its Investment Objectives and has decided to delegate the day-to-day management of the solvency position to a specialist firm. This specialist firm is known as a Fiduciary Manager.

Under this governance model the Trustee focuses on setting the high-level Investment Objectives and on deciding what types of investments and approach to investing are acceptable for the Plan. It then delegates day-to-day responsibility for all investment decisions to the Fiduciary Manager. The Trustee considers that the Fiduciary Manager is best placed to invest the assets on its behalf. The Trustee has agreed a performance target and set of guidelines for the Fiduciary Manager.

Other parties involved

There are a number of parties involved in the Plan's investment arrangements, namely:

- Trustee
- Plan Actuary
- Investment managers
- Custodian
- Providers of direct investments

Further information on the investment responsibilities of different parties can be found in Appendix A.

Responsibility and knowledge

The Trustee has ultimate responsibility for the management of the Plan and its assets. The Trustee has agreed the overall investment objective, permissible investment strategies and guidelines for the assets. The Trustee has delegated the management of the Plan's assets to the Fiduciary Manager. The Fiduciary Manager works within the framework set by the Trustee.

The Trustee confirms that all parties to whom it delegates responsibility have the appropriate knowledge and experience required to take on this role. The Trustee expects each party to carry out the duties so delegated with a view to giving effect to the principles in this Statement, so far as is reasonably practical.

2. Investment objectives

The Trustee's primary objective is to provide sufficient assets to meet the members' entitlements under the Constitutional Rules as they fall due. The Trustee has set an objective for the Plan's investments in order to target this primary objective, which is called the 'Investment Objective'.

The Investment Objective is a quantifiable statement comprising a return objective and a risk statement.

- The **return objective** states the level of return on the assets relative to an economic measure of the liabilities that the Trustee is targeting
- The **risk statement** defines the level of confidence the Trustee has in the funding ratio (i.e. the ratio of assets to liabilities) being above a certain level over a certain defined time period

Return Objective

The Trustee aims to achieve a return on the Plan's assets of 3% p.a., net of fees, in excess of the return on the gilt-based liability benchmark over rolling five-year periods.

Risk Statement

The Trustee expects that the active risk within the Plan's portfolio will generally be around 7.5% per annum, with the Fiduciary Manager required to formally notify the Trustee if the active risk reaches 12% per annum. However, the Trustee recognises that this will fluctuate over time as the composition of the portfolio changes and the levels of risk in markets change.

The liability benchmark is defined as the liabilities scaled by the funding ratio.

The liabilities are calculated as the net present value of the Plan's projected pension cashflows, using rates implied by the gilt markets.

Process for setting the Investment Objectives

The Return Objective and Risk Statement have been set by the Trustee on the basis of an assessment of the Plan's current position and consideration of future uncertain events. This involved looking at the Trustee's overall objectives for the Plan, the Statement of Funding Principles and the Plan's financial position (including the strength of the sponsoring employer's covenant). As part of this exercise a number of assumptions were made in relation to the level and timing of future contributions.

3. Risk management policies

The Trustee recognises that a number of risks are involved in the investment of the Plan's assets. It is the Trustee's policy to monitor regularly the risks affecting these investments, and to manage them where possible so as to avoid the accumulation of excessive risk exposure. In managing these risks, the Trustee has regard to the Investment Objectives. The Trustee will work with the Fiduciary Manager to promptly identify any material risks, to consider how best they should be managed, to implement a solution for managing these risks and then to decide how they should be

monitored in the future. The Trustee will review its risk management policy on a regular basis.

Key risk affecting the Plan

The key risk to the Plan is that the value of assets is inadequate relative to the value of the liabilities. Ultimately, this could lead to there being insufficient assets to secure all benefits. This is called solvency risk.

The Trustee acknowledges that there are a number of individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner. The Fiduciary Manager helps manage these risks and also assists by providing risk analysis using quantitative modelling techniques.

Other risk factors

There are a number of other risks affecting the Plan. Further information on the main risk factors are described in Appendix B, along with a summary of the Trustee's policy on how each risk should be managed and measured.

4. General investment policies

The Trustee has set a number of investment policies in relation to their investments, in conjunction with the Fiduciary Manager. These cover:

- Types of investments considered
- Balance between investment types
- Expected return on investments
- Realisation of investments
- Use of derivatives
- Responsible investment & corporate governance
- Investment manager arrangements
- Ensuring compliance with the Pensions Acts
- Fee basis for service providers

Types of investments considered

The Trustee seeks to achieve the Plan's Investment Objective by investing in a suitably diversified mix of assets including (but not limited to) the following investment strategies and investment types:

- Equity
- Credit
- Property
- Multi-strategy
- Macro-orientated
- Sub-funds
- Illiquid investments, such as Private Equity
- Cash
- High quality bonds

- Derivatives

Discretion has been provided to the Fiduciary Manager to manage the investments within Sub-funds.

In deciding the suitability of each investment strategy or type, the Trustee has considered the role of each in targeting the overall investment objective, taking into account the associated risks and potential rewards, and will continue to do so on a regular basis. This assessment has been made by the Trustee following training and advice from the Fiduciary Manager. It is the Trustee's policy to review the suitability of different investment strategies/types from time to time.

The Plan has made an investment in an Asset Backed Contribution ('ABC') arrangement set up in conjunction with the Employer that provides an annual income which is derived from certain assets transferred to a specifically established subsidiary company by the Employer and over which the Trustee has security.

The Trustee monitors from time-to-time the Employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically, this check is carried out annually by the Plan's auditors.

The Trustee also owns a portfolio of annuities with Aviva in respect of some pensioners' liabilities.

Balance between investment types

It is the Trustee's policy to set appropriate guidelines for the Fiduciary Manager which control the balance between the investment types and reflects its investment objectives.

In setting these guidelines the Trustee has considered the characteristics of each of the investment types and has received training and advice from the Fiduciary Manager. The Trustee has also considered the need for flexibility and the overall control of risk. The Fiduciary Manager has been given discretion to manage the balance between the investment types of the Plan within the guidelines set by the Trustee. The Fiduciary Manager considers the risk and return characteristics of each of the investment types when allocating the assets between them. The Trustee will review the balance between the investment types and guidelines from time to time.

The current guidelines are set out in the Investment Arrangements Summary (Appendix C).

Expected return on investments

The Trustee's policy in relation to expected return on investments is to invest in the assets which it believes will, over an appropriate time horizon and having a regard to the need to manage risk appropriately, achieve the Return Objective. When setting the investment guidelines, the Trustee has considered the expected return, and associated risk for each investment type.

The Trustee monitors the return on the different investment types on a regular basis using reporting provided by the Fiduciary Manager. In the case of severe underperformance, the Trustee expects the Fiduciary Manager to review the investments in light of the prevailing economic conditions.

Realisation of investments

As part of the ongoing management of the Plan, it is necessary for the Trustee to realise investments from time to time. It is the Trustee's policy to ensure that the Fiduciary Manager considers a number of core factors when considering the realisation of investments. These include:

- The potential future returns and risks of the investment
- The liquidity of the investment
- The ongoing appropriateness of the investment

The balance between the benefit payments and future contributions into the Plan was considered when reviewing the need to realise investments. These considerations will be kept under review.

The Trustee has delegated decisions relating to the realisation of investments to the Fiduciary Manager within the agreed guidelines.

All realisations made by the Fiduciary Manager will be done in accordance with the terms and conditions contained in the agreement between the Fiduciary Manager and the Trustee. It is the Trustee's policy to review the approach taken by the Fiduciary Manager to realise investments from time to time.

Ultimately, the investments will all have to be sold when the Plan's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Plan accounts.

Use of derivatives

As part of the overall consideration of investments the Trustee has agreed to use derivatives such as forwards, futures, swaps and options for risk management and for the efficient implementation of the investment strategy. The Trustee has delegated responsibility for the design and implementation of derivatives strategies to the Fiduciary Manager. The design and execution of derivative strategies will be subject to the guidelines contained in the agreement between the Fiduciary Manager and the Trustee. The Fiduciary Manager will use derivatives within the portfolio when it deems appropriate to do so in order to support the achievement of the Trustee's Investment Objective within the agreed guidelines.

For the avoidance of doubt, leverage limits are included within the Fiduciary Manager's contractual terms and any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

Responsible investment & corporate governance

Financially material considerations over the appropriate time horizon of the investments

The Trustee has a long term time horizon for their portfolio and therefore acknowledges that being a responsible investor should improve financial outcomes. The Trustee considers responsible investment to be the integration of environmental, social and governance (ESG) factors into investment decisions in respect of their portfolio where financial risk and / or return is or could be materially affected

("Responsible Investment"). These considerations include the potential impact of climate change.

The Trustee has delegated responsibility to take account of ESG factors in investment decision making to the Fiduciary Manager and the AVC Provider. Where the Plan assets are held in pooled arrangements, the Trustee expects the Fiduciary Manager and the AVC Provider to take into account ESG factors, consistent with its approach to Responsible Investment. The Fiduciary Manager and the AVC Provider are responsible for ensuring that the external investment managers appropriately incorporate ESG factors within their investment process. Monitoring by the Trustee of the Fiduciary Manager is undertaken on a quarterly basis. Monitoring by the Trustee of the AVC Provider is undertaken on an annual basis.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustee does not take the views of individual members and beneficiaries, including (but not limited to) their views in relation to governance, social and environmental impact, into account when making investment decisions. The Plan's assets are largely held in pooled arrangements therefore, it is not possible to reflect individual member views. However, the Trustee believes that by being a responsible investor, they are managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Plan.

The exercise of the rights (including voting rights) attaching to the investments

In relation to corporate governance and activism (including the way in which any rights attaching to investments, such as voting rights, are exercised), the Trustee has adopted a policy of delegating voting decisions on stocks to the investment managers who will exercise the voting rights attached to any individual investments on their behalf, in accordance with their own house policies.

The Fiduciary Manager encourages the Plan's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

Undertaking engagement activities in respect of the investments

The investment managers, acting on behalf of the Trustee are expected to have an interest in ensuring that corporate management act in the long term interests of shareholders or bondholders and will, where impactful and possible engage with management.

Where relevant, the Trustee prefers their investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

The Fiduciary Manager and the AVC Provider are responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact. The Fiduciary Manager will report on this to the Trustee on a quarterly basis.

Arrangements with the Fiduciary Manager

The Trustee delegates various activities in relation to the Plan's investments to the Fiduciary Manager as set out in this Statement. The Fiduciary Manager is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustee's policies as set out below.

The Trustee keeps the Fiduciary Manager's performance under review, focusing on longer-term outcomes. The Trustee receives regular reports from the Fiduciary Manager, including on portfolio turnover costs incurred by the underlying investment managers. The Trustee review process includes specific consideration of how the Fiduciary Manager has implemented the responsible investing policies and engagement activities included in this Statement.

Although the Trustee's arrangement with the Fiduciary Manager is expected by the Trustee to be a long-term partnership, the Fiduciary 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 or where the Fiduciary Manager fails to ensure alignment between underlying investment managers and the Trustee's policies.

The Fiduciary Manager is paid using a combination of fixed and ad valorem fees in line with normal market practice, for a given scope of services which includes consideration of long-term factors, responsible investment and engagement. The Trustee reviews the costs incurred in managing the Plan's assets annually.

Investment Manager arrangements

The Trustee believes that an understanding of, and engagement with, underlying Investment Managers' arrangements is required to ensure they are aligned with Trustee policy, including its Responsible Investment policy. In accordance with latest regulation, it is the Trustee's policy to ensure that the following are understood and monitored:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee's policies
- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustee's policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to the Fiduciary Manager. They are responsible for ensuring each underlying investment manager is aligned with the Trustee policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustee on any areas of potential divergence between Trustee policy and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustee to review all of the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Compliance with the Pensions Acts

The Pensions Acts distinguish between investments which are purchased directly by the Trustee ('direct investments') and investments where management is delegated to an investment manager under a written contract. An example of the former would be the purchase of an insurance policy by the Trustee (e.g. additional voluntary contributions policies), where there is no investment management agreement.

When deciding whether to make any new direct investments, the Trustee will obtain written advice from their Fiduciary Manager. They will also consider whether future decisions about those investments should be delegated to an investment manager.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals.

This written advice will cover the issues set out in the Pensions Acts and the principles contained in this Statement.

It is the Trustee's policy to regularly monitor and review the practices of the Fiduciary Manager (and, if applicable, any other investment manager appointed by the Trustee under the Pensions Acts) to ensure that the Trustee's powers of investment are being exercised in accordance with the Pensions Acts, and with a view to giving effect to the principles in this Statement as far as practicable. If the Trustee becomes aware that any manager is not carrying out its duties in accordance with the Pensions Acts or this Statement, it will promptly review this situation with the Fiduciary Manager.

Additional Voluntary Contributions (AVCs)

The Trustee has a contract in place with Prudential Assurance Company Limited for the investment of members' AVCs. The Trustee considers the following sources of risk:

- Member understanding – the risk that the Trustee does not provide clear, balanced and timely information to members to aid their understanding. The Trustee is aware that poor information could lead to members' reasonable expectations not being met
- Investment practices – the risk that the fund(s) offered do not meet members' requirements. The fund(s) offering is periodically monitored for both suitability and competitiveness
- Risk of default funds, where provided, being unsuitable for the requirements of some members
- Manager risk - risk of fund managers not meeting their objectives. This risk is considered by the Trustee both upon the initial appointment of the fund manager and periodically thereafter
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced, and that

suitable liability and compensation clauses are included in all contracts for professional services received

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner. The AVC arrangements will be reviewed periodically to ensure the investment profile of the fund(s) available remain consistent with the objective of the Trustee and the needs of the members.

Fee basis for service providers

The Trustee uses a range of fee arrangements which may include performance related fees and fixed fees. The Trustee delegates the consideration of suitable fee bases for underlying mandates to the Fiduciary Manager. The Fiduciary Manager considers a range of factors, including the level of the fees offered and the alignment of interests that the fees give with the Trustee's objectives.

The Fiduciary Manager is remunerated on a fixed fee basis, as agreed with the Trustee from time to time. For the avoidance of doubt, the Trustee remains responsible for agreeing fee arrangements for any other service providers that fall outside of the Fiduciary Manager's remit.

5. Agreeing and reviewing this Statement

Advice received

The Trustee has obtained advice on the content of this statement from its Fiduciary Manager. It will also take advice on any future major changes to this Statement.

The Trustee is satisfied that the Fiduciary Manager has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustee has consulted the Principal Employer, Calor Group Limited, on the content of this Statement and will consult with them on future changes.

Compliance and review

The Trustee will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and also following any significant change in investment policy.