THUS Group plc Pension Scheme (the ‘Scheme’)

Statement of Investment Principles

Introduction

1 The Scheme provides pensions and other benefits to Scheme members (‘Members’) on a defined benefit basis. Under the Pensions Act 1995 (the ‘Act’) (as amended by the Pensions Act 2004), the Trustees are required to prepare a statement of the principles governing investment decisions for the purpose of the Scheme. This document has been prepared by the Trustee and contains that statement and describes the investment principles pursued by the Trustee of the Scheme.

2 In the process of preparing this document, the Trustee of the Scheme has:

- consulted with the sponsoring employer (the ‘Employer’) and will consult the Employer before revising this document in the future. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee,
- sought appropriate advice,
- had regard to the requirements of the Pensions Act concerning diversification and suitability of investments and will consider those requirements on any review of this document or any change in their investment policy.

3 The Trustee will review this document, usually once a year and at least every three years, or immediately following a significant change in investment policy, or where the Trustee considers that a review is needed for other reasons.

4 The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Scheme details

5 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

6 The Scheme ceased contracting out of the State Second Pension on 6 April 2016. Until that date, members of the Scheme were contracted out of the State Second Pension under the Pensions Schemes Act 1993. Approval to that effect was obtained from HM Revenue and Customs.

7 The Scheme is registered under the Finance Act 2004.

8 Administration of the Scheme is managed by the Trustee, who is responsible for the investment of the Scheme’s assets and assessing the likely benefit outgo on a regular basis and ensuring that sufficient cash reserves are available to meet this outgo.

Financial Services and Markets Act 2000

9 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.

Investment objectives

10 The Trustee's investment objectives are:

- **a.** The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Scheme provides.
- **b.** To limit the risk of the assets failing to meet the liabilities over the long-term.
- **c.** To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under **b**.

Investment policy

11 A full valuation of the Scheme will be performed every three years or sooner if required, using asset return assumptions developed and approved by the Scheme Actuary. In addition, the Trustee will consider the investment strategy against other alternative strategies. Based on this, the Trustee will consider the appropriate allocation between return seeking assets and bonds and also the allocation to specific assets and investment managers.

12 The Scheme's current strategic asset allocation was reviewed in October 2023.

13 The Trustee has taken advice to ensure that the assets held in respect of the pension liabilities are appropriate. The Trustee will continue to monitor, and take advice on, the investments on an ongoing basis.

Investment Benchmark

14 The Trustee considers that the following asset allocation currently represents a suitable long-term allocation for the Scheme:

Asset Class	Benchmark Allocation (%)	Benchmark Index
Equities	**15.0**	-
All World Equity Index Fund	6.0	FTSE All-World
All World Equity Index Fund – GBP Hedged	9.0	FTSE All-World – GBP Hedged
Matching Bonds	**45.0**	-
Liability Driven Investment	45.0	Bespoke benchmark based on Scheme's projected benefit cashflows
Other assets	**40.0**	
Diversified Fund	27.5	Composite
Managed Property Fund	5.0	AREF/IPD UK Quarterly Property All Balanced Funds Index
Alternative Credit	7.5	Sterling Overnight Index Average (SONIA)

Where assets are allocated to a currency hedged fund, the associated benchmark is also calculated on hedged to Sterling basis.

15 The Trustee considers this policy to include suitable investments, to be appropriately diversified and to provide a reasonable expectation of meeting the objectives. In addition, the Trustee will review the benchmarks regularly to ensure that they remain appropriate.

Diversification

16 The choice of the investments shown above, together with the nature of the investment mandates, will ensure that the Scheme's investments are adequately diversified.

Manager structure

17 The majority of the assets of the Scheme are currently invested in index-tracking "return seeking" equity and diversified fund, bond funds, and a pooled property fund, all managed by Legal & General Investment Management ('Legal & General'). The Scheme also invests a portion of assets in an actively managed Multi-Strategy Alternative Credit (MSAC) fund managed by M&G.

Performance Objectives

18 The Trustee will assess performance against the benchmarks shown above. Legal & General's investment objective is to perform in line with the composite benchmark shown above. M&G's objective is to outperform the benchmark shown by 3-5% per annum.

Manager Monitoring

19 The agreements between the Trustee and the investment managers will continue either in perpetuity or until the end of the lifespan of the investments with the investment managers unless the Trustee or the investment managers take measures in line with the investment agreements to cease the agreement. The investment management agreements may be ceased for a number of reasons, for example financial performance or policies in relation to Environmental, Social or Governance (ESG) issues (including climate change).

20 The Trustee will evaluate the investment managers' performance in light of the specific mandates it expects the investment managers to carry out on the Scheme's behalf. This forms part of the Trustee's periodic review of the suitability of the Scheme's mandates in the context of the Scheme's wider investment strategy, including considering whether the balance between different kinds of investments remains appropriate, the expected return on the investments and the risks to which the Scheme is exposed. Further reviews are carried out based on changes in the Scheme's circumstances, market conditions or the Investment Consultant's views of a particular manager.

21 The investment managers' policies in relation to ESG issues (including climate change) are also reviewed on an annual basis to ensure that the funds invested in remain appropriate and consistent with the Trustee's approach, policies and objectives.

22 The Trustee has appointed the investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets and effective ESG management (which the Trustee believes is best reflected in the overall long-term performance of the manager). When assessing the managers' performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a managers appointment for any of the mandates based purely on short term performance. However, a managers appointment for any mandate could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Fee structures

23 The investment managers are paid ad valorem fees based on the value or exposure (applicable to some mandates that employ leverage to increase the exposure of assets) of each of the mandates under management.

24 The fees of the advisers are determined in accordance with the terms of their engagement.

25 Transaction costs

a. The Trustee is provided with information by its investment managers regarding the level of transaction costs (including commissions) incurred and monitor this, alongside engaging with their investment managers on these costs.

b. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by the investment managers) which the Trustee adheres to. The Trustee, with the help of its Investment Consultant, monitors the level of portfolio turnover and determines if this remains appropriate in the context of the investment managers' mandates and the Scheme's investment strategy.

Liquidity

26 The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in the majority of foreseeable circumstances. The Trustee believes that the funds in which the Scheme currently invests meet this requirement.

Sustainable Investment

27 The Trustee's policy is to take into account factors that are considered to be financially material such as potential future returns and risks of any investments made. ESG-related matters, including broad corporate governance issues, effective stewardship and more specific considerations such as climate change and research and development practices are considered to be financially material by the Trustee. The Trustee expects that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties.

28 The Trustee recognises that a company's long-term financial success is influenced by a range of factors including appropriate management of ESG issues. Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, they take the view that their primary responsibility is to act in the best financial interests of the members of the Scheme.

29 The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers.

30 The Trustee's policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the investment managers. However, the Trustee expects that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties. In the case of Legal & General Investment Management, the Trustee recognises that it is likely that, as a result of the passive nature of the investments, there are likely to be limited occasions when the manager would take account of such considerations in its selection of investments.

31 The Trustee expect its investment managers, where appropriate, to engage with companies (and other relevant persons including, but not limited to, other investment managers, other stakeholders, and issuers/other holders of debt and equity) on matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks, and ESG issues concerning the Trustee’s investments. The Trustee believes such engagement will protect and enhance the long-term value of its investments and incentivises the investment managers to take a long-term view of the performance of their investments. The Trustee reviews the investment managers’ policies in these areas to satisfy itself that they broadly meet with the Trustee’s views.

32 In order to incentivise the investment managers to align their investment strategies and decisions with the Trustee’s policies, the Trustee (with the assistance of the Investment Consultant): (i) assesses the managers’ policies, processes and views when selecting the investment managers; (ii) sets investment objectives and benchmarks to be complied with by the investment managers which reflect relevant policies of the Trustee; and (iii) monitors the investment managers' performance.

33 Should the Trustee’s monitoring process reveal that, in their view, any of the investment managers’ mandates are not sufficiently aligned with the Trustee’s policies, the Trustee will engage with the managers further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, and taking account of potential alternative options and implications for the governance requirements of the Scheme, a manager will be terminated and replaced.

34 To maintain alignment, the investment managers are provided with the most recent version of the Scheme’s Statement of Investment Principles on an annual basis. The Trustee also seeks information regarding the managers’ policies to consider whether the Scheme’s assets are managed in line with the Trustee’s policies as outlined in the Statement of Investment Principles. As part of this monitoring process the investment managers provide the Trustee with regular monitoring reports, which include information on the investment managers’ approach to allowing for ESG issues (including climate change).

35 The Investment Consultant has a dedicated sustainable investment resource and a network of subject matter experts, including dedicated sustainable investment resource, who can provide support in the consideration and monitoring of asset manager products. The consideration of sustainable investment is fully embedded in the manager recommendation process and the Trustee reviews the investment managers’ ESG policies to assess the alignment with the Trustee’s beliefs. Whilst considering the limitations relating to the largely passive nature of the Scheme’s investments, the Investment Consultant expects managers to have sustainability processes to align with the investment risk and return characteristics of the funds, and the Trustee’s aims and time horizons. Where a manager does not comply or improve on their stance on sustainable investment, the managers’ position in the portfolio may be reviewed.

36 Other matters considered by the Trustee to be non-financial matters, such as members’ views, are not taken into account.

Rights attaching to investments

37 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The managers are expected to exercise these rights and engage with companies with care and diligence that could reasonably be expected of a prudent professional investment manager, taking into account any relevant policies adopted by the Trustee from time to time and their impact on eligible participants and beneficiaries of the Scheme over an appropriate time horizon. The Trustee recognises that it retains ultimate accountability for how voting and engagement activities are exercised and therefore monitors how this is being done on an annual basis.

38 The Trustee encourages the Scheme's investment managers to discharge their responsibilities in accordance with the UK Stewardship Code (the "Stewardship Code") published by the Financial Reporting Council.

Additional Voluntary Contributions (AVCs)

39 AVCs paid into the Scheme by members to enhance their benefits at retirement are invested in unitised arrangements with Standard Life. Members can invest in the funds available from the two ongoing lifestyle strategies, namely Balanced Lifestyle and THUS AVC Lifestyle, and one historic lifestyle strategy. Members can also invest in a choice of funds via Self-Select strategy. The Trustee regularly monitors the AVC arrangements to ensure that they remain appropriate. The recent review carried out in March 2022 concluded that Standard Life as the provider and the range of fund choices remain suitable given the small size of the fund, declining membership and only one member actively contributing AVCs. The Trustee also reviewed the governance of the AVC arrangements in March 2019.

Risk Management

40 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme. The Trustee continues to monitor these risks.

Solvency risk and mismatching risk

- addressed via the analysis of the likely spread of funding levels in the future depending on the allocation of assets between different asset classes such as equities, property and bonds and through ongoing triennial actuarial valuations
- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy

Manager risk

- is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy
- is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment processes

Liquidity risk

- is measured by the level of cashflow required by the Scheme over a specified period and the amount of collateral that is available to support the Scheme's derivative-based exposures

- is managed by the Trustee’s administrator who assesses the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and by Legal & General Investment Management who assess the need for additional collateral to support the derivative-based exposures, and through holding assets of appropriate liquidity

Political risk

- is measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy

Sponsor risk

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
- is managed by monitoring the impact the Scheme has on the sponsor’s business. Sponsor risk is measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the sponsor’s earnings.

Currency risk

- is measured by the level of concentration of assets denominated in any foreign currency leading to the risk of an adverse influence on investment values arising from unfavourable conditions affecting that particular currency
- is managed by controlling the level of overseas investments, diversifying overseas investments across currency blocs and by hedging approximately 65% of the developed markets currency exposure within its diversified portfolio, approximately 60% of the developed markets currency exposure within the equity portfolio and 100% of the developed markets currency exposure within the Alternative Credit mandate.

Custodian risk

- is addressed through the ongoing monitoring of the custodial arrangements. The custodians for the Scheme’s assets are appointed by the investment managers.

Market impact risk

- the risk that assets are bought or sold at sub-optimal prices. This risk is mitigated through the choice and ongoing monitoring of the investment managers and consideration of transition arrangements where appropriate.

Corporate governance risk

- measured by the level of concentration in the individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure
- managed by adopting a diversified investment policy, both geographically between markets and within each market.

THUS Group plc Pension Scheme
October 2023

Governance

1 The Trustee reviews the governance of the Scheme from time to time and, as part of that review, considers any associated guidance issued by the Pensions Regulator.

Division of Responsibilities

2 The Trustee is responsible for investment policy, asset allocation strategy, manager structure, mandates, selection and review and for investment monitoring. The Trustee recognises that these responsibilities require a high level of skill and expertise, and they will undertake training and seek advice from their professional advisors as required.

3 The Trustee has decided not to delegate any functions to an investment subcommittee, because the trustee body consists of only five individuals.

4 Two investment managers have been appointed for all aspects of the day to day management of the assets of the Scheme, including the selection of appropriate assets, and the administration and safe-keeping of those assets, within certain mandates.

5 The Scheme Actuary's responsibilities include liaising with the Investment Consultant on the suitability of the Scheme's investment policy given the financial characteristics of the Scheme, assessing the funding position of the Scheme and advising on the appropriate response to any shortfall, performing the triennial (or more frequently as required) actuarial valuations and advising on appropriate contribution levels. They will also supply liability data and cashflow information to the Investment Consultant as required.

6 The Trustee's Investment Consultant has a particular responsibility to assist in monitoring the Scheme's investment managers and to help review the investment strategy. The Trustee agrees with the principle of separate competition for actuarial and investment contracts. However, the Trustee believes that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Scheme. They will continue with this arrangement until it ceases to be appropriate.

7 This division of responsibilities and fee structures used are consistent with the approach taken by other similar schemes and the Trustee is satisfied that it represents an efficient structure, given the skill sets of the various parties.