

**THE PENSION AND LIFE ASSURANCE PLAN OF SANDERSON SYSTEMS
LIMITED (the "Plan")**

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

This statement sets out the principles governing decisions about the investment of the assets of the Plan. The Trustees of the Plan ("the Trustees") have prepared this statement to comply with section 35 of the Pensions Act 1995 and the Occupations Pension Schemes (Investment) Regulations 2005 (2005/3378) as amended ("Investment Regulations").

This statement will be reviewed at least every three years and without delay after any significant change in investment policy. The employer is also consulted on any significant change in investment policy.

The assets of the Plan are solely invested in a Group Pension Contract held with Clerical Medical (a trading name of Scottish Widows Limited), which is a 'wholly insured contract'. The Plan is a "wholly-insured" scheme for the purposes of regulation 8 of the Investment Regulations and the Trustees do not consider that Clerical Medical is an "asset manager" for the purposes of Regulation 2(3)(d) of the Investment Regulations and therefore this statement is required to cover:

- a. the Trustees' policy for compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*); and
- b. the reasons for the Plan being a wholly-insured scheme

The Trustees' policy for compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*)

The Trustees policy for compliance with the requirements of section 36 of the Pensions Act 1995 (*choosing investments*) is as follows.

1. In relation to investing in the Group Pension Contract, the Trustees have considered and where appropriate taken advice on whether the Group Pension Contract is satisfactory having regard to the requirements of the Investment Regulations, so far as relating to the suitability of the investment and to the principles contained in this statement.
2. The Trustees have determined at what intervals the circumstances, and in particular the nature of the investment, make it desirable to obtain the advice referred to in paragraph 1 above going forward and will obtain and consider such advice accordingly.

The reasons why the Plan is a wholly-insured scheme

The Trustees consider the Group Pension Contract to be a suitable investment vehicle for a small fund and therefore the reasons why the Plan is a wholly-insured scheme are as follows.

1. In administrative terms the Group Pension Contract operates like a bank deposit account - contributions are paid into a 'pool' and money is taken from that pool to provide benefits as and when required. Until the time when provision of benefits becomes necessary there is no specific allocation in respect of any one member. This approach obviates the need for a re-allocation of monies if events do not proceed as planned; for example, in the case of early retirements and leavers, when benefits may be provided earlier than anticipated.
2. The contributions paid to the Group Pension Contract are invested in Clerical Medical's With-Profits Fund. The aim of the fund is to generate capital growth over the medium to long term (at least 5 years), with some stability over the short term. This ties in with the three main features of with-profits investment which are:
 - Investment in a mix of assets, including company shares
 - Smoothing of the investment performance to reduce the investment risk
 - An element of guaranteed investment performance
3. The investment performance of different types of asset can vary considerably, reflecting what is happening in the economy. Clerical Medical change the asset mix as their view of the economy and the likely future performance changes. In times of uncertainty, stock markets are volatile and Clerical Medical may sometimes need to reduce the amount of higher risk assets such as equities and property to be sure that the fund can meet its guarantees.

Table of asset split for the CM With-Profits Fund as at end Q3 2022

| Asset Class | Q3 2022 |
|--------------------------|----------------|
| Absolute Return | 16.4% |
| UK Property | 12.2% |
| Global Corporate Bonds | 11.1% |
| UK Equities | 8.9% |
| Global Equities | 14.8% |
| Emerging Market Equities | 6.4% |
| Cash | 14.4% |
| Emerging Market Debt | 5.6% |
| North American Equities | 2.2% |
| Private Debt | 3.1% |
| Japanese Equities | 2.1% |
| Asia Pacific Equities | 2.1% |
| Europe Equities | 1.4% |
| UK Gilts | 3.1% |
| Commercial Real Estate | 0.2% |
| Other Government Bonds | -3.9% |
| Unassigned Group | 0.0% |
| Forwards | -0.2% |
| Total | 100.0% |

Due to rounding the figures in the table may not add to exactly 100%.

4. The With-Profits contract utilises the guaranteed annuity rates under the Group Pension Contract for members who joined before 1 July 2001. These are only specified for single life annuities which do not increase in payment, however, the underlying

basis can be used to determine the guaranteed rates that apply for pensions which do increase in payment and/or reversionary pensions.

For the Plan, the applicable rate of increases for pensions in payment is 5% per annum. Included in the table below for comparison are the annuity rates both for pensions which do not increase and for those which increase at 5% per annum. The single life annuity rates are expressed as the amount of pension that would be purchased for £100, whilst, the reversionary factors are the cost of securing £1 of reversionary pension. All figures shown are for members retiring at age 65 at 1 July 2020, and are referred to as current annuity rates (CAR). These guaranteed annuity rates (GARs) are very attractive for securing the annuities of members as they reach retirement:

| | | GARs | | CARs | |
|--------|---------------------|--------------|-------|------|-------|
| | | 0% | 5%pa | 0% | 5%pa |
| Male | Annuity Rate | Not Required | 4.23 | 4.48 | 2.14 |
| | Reversionary Factor | Not Required | 13.74 | 7.27 | 27.14 |
| Female | Annuity Rate | Not Required | 3.54 | 4.04 | 1.84 |
| | Reversionary Factor | Not Required | 3.12 | 1.97 | 6.03 |

5. Clerical Medical are regulated by the Prudential Regulation Authority and the Financial Conduct Authority (FCA) and are covered by the Financial Services Compensation Scheme.
6. Although not strictly an investment issue, the Trustees are able to take advantage at a competitive price of Clerical Medical's bundled services for administration, investment and actuarial services by using the With-Profits contract. Clerical Medical's administrative, actuarial and investment expenses are not charged for explicitly, but are allowed for in the yield payable. The yield under the Group Pension Contract is paid in the form of a declared rate of interest, which is applied to the amount that stands to the credit of the contract. The yield does not follow immediate fluctuations in the stock market but emerges in a steady manner to reflect the long-term performance of the investments. The amount available on surrender of the contract will depend on market conditions at the time and the amount, if any, being distributed from the excess assets of the estate of the With-Profits Fund and may be higher or lower than the face value of the contract.
7. Both Clerical Medical and Scottish Widows are committed to Responsible Investment. In 2022, Scottish Widows published its first Climate Action Plan, setting out their ambition to align all their investments with limiting global warming to 1.5°C above pre-industrial levels, by targeting net zero carbon emissions, by 2050 at the latest. To achieve their mission, Scottish Widows have set the following targets and milestones (of which the With-Profits Funds form part):
 - Invest between £20bn – £25bn in climate-aware investment strategies, with at least £1bn invested into climate solutions investments by 2025
 - Halve the carbon footprint of our investment portfolios by 2030
 - Net zero across the entirety of Scottish Widows' investments by 2050.

This ambition will shape their investment strategy, governance, asset allocation, and stewardship over the coming years. They believe this ambition will enhance investment returns over the longer term in addition to meeting their responsible investment goals.

In early 2022, Scottish Widows updated the exclusions applying to the main equity portion of the Clerical Medical With-Profits Fund. The exclusions are in line with Scottish Widows published exclusions policy, designed to mitigate long-term investment risk by excluding investment in companies which pose the most severe risk due to the nature of their business. Their most recent addition to the policy includes exclusion of companies deriving more than 10% of value chain revenues from tobacco products.

Voting activity in 2022 was an important element of their increasing focus to better represent member interests. For the first time, Scottish Widows had the ability to cast votes for some equity investments held in the Clerical Medical With-Profits Fund. This ability is new for the insurance and pensions industry but looks set to grow significantly as a powerful stewardship tool, allowing Scottish Widows and other providers to increase influence on investee companies through voting activity. Furthermore, the stewardship priorities covering the Clerical Medical With-Profits Fund were widened in 2022. Previously they concentrated purely on Climate & Carbon and Board Diversity. They now take due consideration of the impact of the transition to a low carbon economy on people and consider a broader set of environmental factors such as biodiversity and waste management. In addition, a third stewardship priority in human rights has been added. Their stewardship priorities will guide their engagement and voting activity.

AVCs

The Plan has a small number of Additional Voluntary Contributions (AVC) members who no longer pay any contributions. The policies are held with Clerical Medical. The attention of the members has been drawn to the need to continue to monitor the AVC investment performance to ensure they meet with each member's requirements.

Chair of the Trustees
6 September 2023