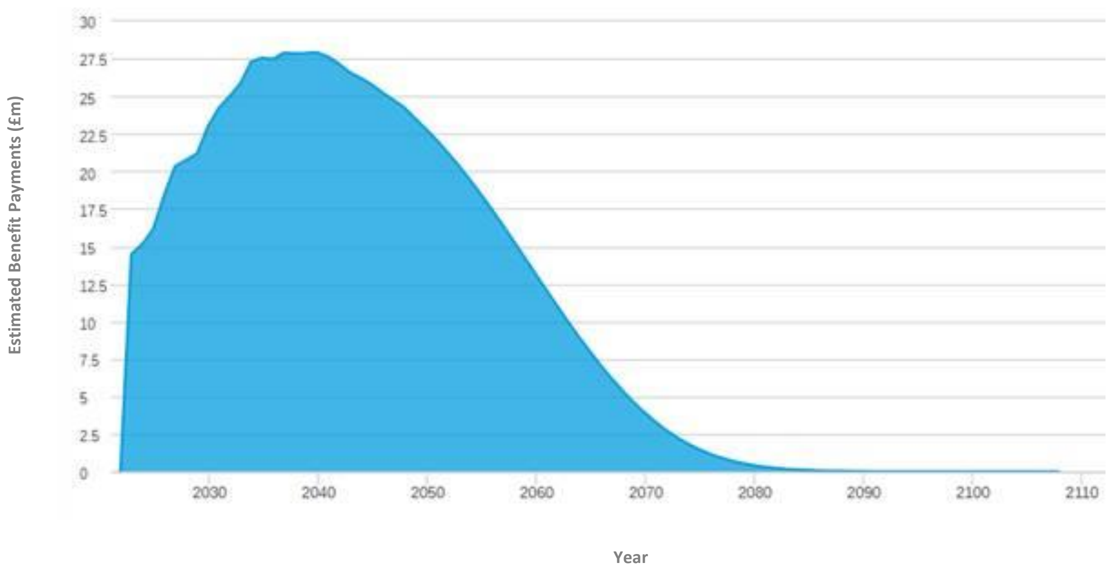
Electrocomponents Group Pension Scheme

Statement of Investment Principles – June 2022

Preface

The purpose of this preface is to provide a high-level summary of the Trustee's approach to the investment of the Electrocomponents Group Pension Scheme (the "Scheme"). The body of this Statement of Investment Principles provides more detail in this regard.



The chart above shows the estimated benefit payments the Trustee is expecting to make to members over time. To ensure the Scheme can meet these payments, the Trustee and Sponsoring Employer have worked collaboratively to design a plan to deliver full funding on a low risk basis (gilts +0.4% p.a.) by 31 March 2030, referred to as the Scheme's long-term funding target ("LTFT"). Once achieved, the Trustee expects to be able to meet the Scheme's obligations to members via the adoption of an investment strategy that exhibits a low level of exposure to investment and other risks (albeit without necessarily seeking to eliminate all risks), reducing the reliance on the Sponsoring Employer and providing a high level of benefit security.

The agreed plan assumes the Scheme's assets will deliver an expected return of gilts +1.55% p.a. until the LTFT is achieved, supported by additional contributions of £10m p.a. (increasing in line with inflation) from the Sponsoring Employer[1]. Although it would be possible to target a higher level of expected return on the Scheme's assets, the Trustee and Sponsoring Employer have agreed to adopt a more risk-managed approach, forgoing potential additional returns for greater security of members' benefits.

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[1] The Sponsoring Employer paid a further £12.5m into the Scheme in Q1 2021 and paid another £12.5m into the Scheme in Q1 2022.

The Trustee has designed the Scheme's investment strategy to achieve the following key objectives (a more detailed breakdown of the below objectives can be found in section 2.1 on page 4):

- To target an expected return consistent with the delivery of the Scheme's LTFT in a low risk and well-diversified manner.

- To maximise the extent to which it is possible to use investment income to meet the Scheme's future cashflow requirements, thus avoiding the liquidity risk attached to disinvesting assets to pay members' benefits.

- To minimise the impact of changes in long-term interest rates and inflation expectations on the Scheme's funding level (measured on the LTFT basis).

The Trustee's willingness to accept the investment risk required to deliver the LTFT in line with the agreed plan is dependent on the continuing financial strength of the Sponsoring Employer, which the Trustee monitors closely and with due regard to the Sponsoring Employer's position in the size and incidence of employers' contribution payments.

The Trustee utilises a web-based tool provided by Mercer (PFaroe) for funding level monitoring and risk analytics (including value at risk analysis). This supplements the in-depth review undertaken each quarter as part of the Trustee's investment monitoring framework, which considers cashflow matching, as well as manager performance and developments. PFaroe provides the Trustee with access to daily funding level monitoring, risk analysis charts and sensitivity metrics, which facilitates quicker and more informed decision-making.

Environmental, Social and Governance ("ESG") factors, including climate change, are central to the Trustee's investment decision-making policies and processes in the Scheme. Since 2019, the Trustee has undertaken an annual assessment of the level of ESG integration inherent within the investment strategies in which the Scheme invests, with the appointed investment managers having historically scored well relative to their peers. In addition, the Trustee holds regular ESG focused meetings with all of the Scheme's investment managers to monitor the steps they are taking to enhance ESG integration.

The Trustee is committed to further improving the level of ESG integration within the Scheme's investment strategy and the Trustee's broader decision-making processes. In Q3 2021, the Trustee introduced a sustainably themed allocation within the Scheme's Defensive Growth portfolio. Meanwhile, the Trustee conducted a more holistic review of the Scheme's ESG credentials in Q4 2021, identifying a number of actions to help achieve this objective. Following this review, the Trustee completed an ESG beliefs survey and discussions were undertook to agree the Trustee's ESG beliefs following this. A document is now being drafted in order to capture the Trustees agreed ESG policies.

1. Introduction

The Trustee of the Electrocomponents 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 ("the Act") and subsequent legislation. The Trustee has consulted a suitably qualified person by obtaining written advice from Mercer (the "Investment Consultant"). The Trustee in preparing this Statement has also consulted the Sponsoring Employer, in particular on the Trustee's objectives.

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day-to-day management of the assets, which is delegated to professional investment managers.

This Statement sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Implementation Policy Document ("IIPD"), which should be read in conjunction with this Statement.

In considering the appropriate investments for the Scheme, the Trustee has obtained and considered advice from the Scheme's Investment Consultant. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Act (as amended).

The Trustee has established an Investment & Risk Sub-committee. The Sub-committee includes representation from both the Trustee and Sponsoring Employer. The Sub-committee carries out detailed and technical consideration of investment and risk related areas of interest, aided by input and advice from the Investment Consultant. The Sub-committee makes clear recommendations to the Trustee in order to streamline the decision making process.

2. Investment Objectives and Risk

2.1 Investment Objectives

The Trustee's objectives are to invest the Scheme's assets to maximise the probability of being able to deliver all members' benefits in full and on time. The Trustee has agreed a long-term funding target ("LTFT") with the sponsoring employer. In support of this target, the Trustee's strategy is:

- To adopt a cashflow-driven investment strategy, which has a focus on building a portfolio of assets that generate predictable cashflows for payment of member benefits, whilst meeting the Scheme's funding objectives.
- To remove equity risk from the portfolio and to target an expected return consistent with the delivery of the Scheme's LTFT in a low risk and well-diversified manner.
- To manage the default risk of credit assets by investing primarily in "buy and maintain" instruments.
- To minimise the impact of changes in long-term interest rates and inflation expectations on the Scheme's funding level (measured on the LTFT basis) by holding hedging instruments.
- To manage its investments in accordance with best practice in Environmental, Social and Governance ("ESG") principles, closely monitoring the asset selection and voting activities of the Scheme's appointed fund managers

In order to fulfil these objectives, the Trustee and Sponsoring Employer have agreed a Long-Term Funding Target ("LTFT"), which is based on an actuarial discount rate of gilts +0.4% p.a., and a plan for achieving this by 31 March 2030. The plan assumes that the scheme will achieve an investment rate of return on assets which exceeds that available from gilts by 1.55% p.a. until this point.

Based on advice from the Investment Consultant about realistic long-term assumptions, the Trustee has constructed an investment strategy (further details of which are outlined in Section 2.3) that is invested in a diversified range of low-risk assets whose aggregate long-term expected return is consistent with the achievement of the LTFT.

The scheme's investment strategy is based around a cashflow-driven investment ("CDI") approach. The scheme's assets are therefore invested such that the expected cashflows they generate broadly match a proportion of the scheme's expected liability cashflow profile (noting that the intention is to match as high a proportion as possible). On an continuing basis, the Trustee seeks to ensure that the expected cashflows generated by the scheme's assets are sufficient to meet ongoing pension payments, plus any other anticipated potential payments to beneficiaries (for example, lump sum benefits and transfers out). The Trustee's aim is to avoid disinvesting assets in order to meet the scheme's cashflow needs.

In order to manage the interest rate and inflation risk associated with the scheme's liabilities, the Trustee has invested in assets that hedge these risks. Protection is provided against the impact of movements in long-term interest rates and inflation expectations on the estimated value of the Scheme's liabilities, approximately to the aggregate value of the scheme's assets.

2.2 Risk Management and Measurement

The Trustee considers risk as the likelihood of failing to meet the objectives set out above. The Trustee has set out a policy outlining the measures it has taken to minimise, as far as possible, the investment risks it specifically believes to be financially materially over the Scheme's anticipated lifetime.

The Trustee's willingness to take investment risk is dependent on the continuing financial strength and support of the Sponsoring Employer.

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. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The primary risk upon which the Trustee focusses is that arising through a mismatch between the Scheme's assets and its liabilities. The Trustee aims to reduce this risk as far as practicable through the implementation of a CDI approach, which has been designed in order to largely hedge the impact of movements in long term interest rates and inflation expectations on the value of the scheme's liabilities. Details regarding the target level of liability hedging and how this is managed are provided in the IIPD.

In addition to this primary mismatch risk, the Trustee also recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, and acknowledging the requirement to hold credit focused, income generative assets under the CDI approach, the Trustee aims to ensure that the asset allocation policy in place results in an adequately diversified portfolio.

Although the Trustee believes that diversification limits the impact of any single risk, the diversification of risk across multiple sources is constrained by the Trustee's ability to implement and effectively monitor the range of investments being considered. For this reason, the broad approach is to incorporate a small number of funds which are themselves diversified in the asset portfolio.

The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the scheme's liquidity requirements and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

The Trustee also acknowledges the risks associated with the use of leverage, which the Trustee has agreed is appropriate for the purpose of enabling target hedge ratios (for interest rate and inflation exposure) to be achieved and maintained as part of the CDI approach. The Trustee has not set a formal target with respect to the use of leverage but will monitor actual leverage levels and the adequacy of supporting collateral over time.

The Trustee acknowledges that it is not possible to monitor or manage all the risks at all times. However, the Trustee seeks to only take on those risks they expect the Scheme to be rewarded for over time, in the form of excess returns, in a diversified manner. Where possible the Trustee seeks to mitigate those risks they do not expect to be rewarded for.

The Trustee undertakes a formal review once a year of the Scheme's Risk/Reward position to ensure that the risks to which the Scheme's assets are exposed are adequately rewarded.

The resulting combination of assets has been selected to be consistent with the investment objective, risk tolerance and return target detailed above.

The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

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; in particular, whether the current risk profile remains appropriate.

2.3 Strategic Asset Allocation

The exact details of the Scheme's investment strategy are given in the IIPD. The Trustee implements an investment strategy consistent with its investment objectives. The Trustee believes that the investment risk arising from the investment strategy combined with the risks arising from active management are consistent with the overall level of risk being targeted.

3. Day-to-Day Management of the Assets

The Trustee delegates the day-to-day management of the assets to a number of investment managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

Each investment manager is regulated by a recognised authority body, and Trustee assesses the suitability of regulation in place prior to investing with a manager.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including the appointed managers which may be adjusted from time to time.

The appointed investment advisor provides the Trustee with access to an online monitoring system that allows the Trustee to track a number of metrics relating to the scheme, including the movement of the Scheme's funding level.

Any such adjustments to the appointed managers or the balance between active and passive management would be done with the aim of ensuring the overall level of risk is consistent with that being targeted as set out in Section 2.

Details of the appointed managers for the Scheme can be found in the IIPD.

3.1 Additional Voluntary Contributions

Arrangements in respect of members' Additional Voluntary Contributions ("AVCs") are set out in the IIPD.

4. Security of assets

The Trustee periodically considers the security of underlying investment vehicles and strategies.

Each investment manager is regulated by a recognised authority body, and the Trustee assesses the suitability of regulation in place prior to investing with a manager.

The Scheme invests in a range of different fund structures (such as open ended investment companies and qualifying investor alternative investment funds). Prior to investing, the Trustee considered the different issues and risks associated with each arrangement should the fund provider become insolvent and the impact on the ongoing security of the Scheme assets.

5. Realisation of Investments

In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, subject to not exceeding the Trustee's powers as set out in the Trust Deed and Rules. The investment managers would be responsible for generating any cash required for benefits and other expenditure on the instructions of the Trustee.

6. Responsible Investment and Corporate Governance

6.1 Environmental, Social and Corporate Governance ("ESG"), Stewardship, and Climate Change Beliefs ("Beliefs")

The Trustee believes the following with regards to ESG issues, stewardship and climate change for the Scheme's investment managers:

- ESG issues present financially material risks and opportunities, contributing to the long term ability to meet investment objectives and the Trustee would fail in its fiduciary duty if it was to disregard ESG issues.

- Stewardship, exercised through voting and engagement, can help create and preserve long term value and can be considered as a useful means of communicating with company management.

- Long-term sustainability issues, particularly climate change, present both risks and opportunities that increasingly require explicit consideration.

- Ongoing monitoring of investment managers' approaches to ESG integration, including climate change considerations, and stewardship is essential.

In April 2022, the Trustee engaged in an ESG beliefs session facilitated by the investment consultant. Following the session, the Trustee has agreed an ESG policy document, which sets the Trustee's beliefs and their approach to put these beliefs into practice, while also taking climate change into consideration. The way in which the Trustee puts these beliefs into practice is broken down into: beliefs, policy, process and governance.

6.2 ESG, Stewardship, and Climate Change Policies

In order to put its beliefs into practice, the Trustee follows the policies set out below:

- The Trustee has granted discretion to their advisers and the Scheme's investment managers in respect of the processes used to evaluate ESG issues, including climate change, and to exercise stewardship over the investments.

- The Trustee encourages the Scheme's investment managers to exercise their rights in accordance with the UK Corporate Governance Code and UK Stewardship Code. The Trustee reviews the investment manager's policies and engagement activities on a regular basis.

- The Trustee considers how ESG, stewardship and climate change are integrated within investment processes and how they align with the Trustee's policies in appointing new investment managers and monitoring existing investment managers.

- The Trustee has set out clear expectations for their advisors and the Scheme's investment managers to consider ESG issues, including climate change, where relevant to investment outcomes.

- The Trustee, together with their adviser, annually monitors the extent to which ESG factors, including explicit consideration of climate change, are integrated into the investment managers' approaches (e.g. their methods for bringing ESG insight into their evaluations of investee companies). To supplement this, the Trustee makes regular use of the investment consultant's ESG ratings and will proactively engage with investment managers whose ESG ratings are judged to be lagging their peers within the asset class.

- The Trustee annually monitors investment managers' stewardship activities, with reference to the UK Stewardship Code (where applicable).

- The Investment & Risk Subcommittee meets all investment managers at least annually to discuss ESG, stewardship and climate change issues specifically. These meetings provide a forum for the Subcommittee to communicate their expectations in respect of ESG matters and assess the investment managers' ability to meet them.

- Following the undertaking of an ESG beliefs survey, the Trustee is currently working on drafting a document setting out its ESG policy. This document will also establish processes that ensure investment decisions refer back to the relevant belief.

ESG best practice is rapidly evolving and the Trustee will continue to evolve and build on its approach in this area. The evolution of the approach is recorded within annual reports.

6.3 Investment Restrictions

The Trustee is currently working on its policy for implementing investment restrictions on the appointed investment managers in relation to particular products or activities, and ethical and moral considerations. The Trustee has asked appointed managers to confirm their approach to restrictions in order to better understand the managers' approach in this area.

6.4 Member Views

The Trustee does not currently consult members when making investment decisions but is actively exploring ways to incorporate member views in future and welcomes member feedback.

7. Investment Manager Appointments, Engagement and Monitoring

In line with sections 2 and 3 of the SIP, 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 for which they are selected.

The Trustee looks to its investment consultant for their forward-looking assessment of the manager's ability to deliver upon its stated objectives 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 (amongst other things), in relation to the particular strategies that the Scheme invests in. The investment consultant's manager research ratings assist with due diligence and (where available) are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review an appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives. In relation to multi-client pooled funds used by the Scheme, the Trustee accepts 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. Where the Scheme has bespoke investment arrangements, the Trustee agrees specific risk profiles for these investments which align with the long term target of the strategy.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

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

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over various time periods. The Trustee reviews the absolute performance of the relevant funds, as well as their relative performance versus a suitable benchmark index (where appropriate) and against the manager's stated performance targets (over the relevant time period). The Trustee' focus is on long term performance but short term performance is also reviewed. As noted above, they may review a manager's appointment if:

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

The Trustee meets the Scheme's investment managers from time to time to review their actions together with the reasons for and background behind the investment performance. The Investment Consultant supports the Trustee in fulfilling their responsibility for monitoring the investment manager.

The Trustee does not currently actively monitor portfolio turnover costs across the whole portfolio, but investment manager performance is generally reported on a net of fees and costs basis. Therefore, managers and incentivised in this way to keep portfolio turnover costs to minimum required to meet and exceed their objectives.

The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask investment managers to report on portfolio turnover and turnover costs.

The Trustee is a long term investor and is not seeking to change investment arrangements on a frequent basis. For the open-ended funds the Scheme is invested in, there is no set duration for the appointment of the investment manager. The Trustee will therefore retain an investment manager unless there is a strategic change to the overall strategy that no longer requires exposure to a particular asset class or manager; or the Trustee decides to terminate the mandate following a review of the manager's appointment. Where the Scheme has closed-ended fund holdings, these investments will have a limited lifetime. Once this lifetime is completed the Trustee will decide an appropriate investment for the realised capital at align with the long term goals of the overall scheme strategy at that time.

8. Compliance with this Statement

The Trustee will monitor compliance with this Statement regularly, and in any event will review this Statement at least once every three years and without delay after any significant change in investment policy. The Statement will also be reviewed in response to any material changes to any aspects of the Scheme and its liabilities, finances and attitude to risk of the Trustee and Sponsoring Employer which they judge to have a bearing on the stated investment policy. Any such review will be based on written expert investment advice and will be in consultation with the Trustee and Sponsoring Employer.

Dates of Amendments

First Amendment:	March 2008
Second Amendment:	July 2010
Third Amendment:	May 2011

Fourth Amendment:	July 2012
Fifth Amendment:	May 2013
Sixth Amendment:	July 2015
Seventh Amendment:	July 2016
Eighth Amendment:	May 2017
Ninth Amendment:	September 2019
Tenth Amendment:	July 2020
Eleventh Amendment:	November 2021
Twelfth Amendment:	June 2022

Electrocomponents Pension Trustees Limited as Trustee of the Electrocomponents Group Pension Scheme

Fiona s.stark

Signed Fiona s.stark (Jun 23, 2022 09:51 GMT+1) .... Date 23 June 2022 ....

Signed .... Date 23 June 2022 ....