

Statement of Investment Principles for the Sedgemoor Group Pension Fund

May 2025

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of Sedgemoor Group Pension Trustees Limited ("the Trustee") on various matters governing decisions about the investments of the Sedgemoor Group Pension Fund ("the Fund"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated January 2023.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Fund's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments including the need for diversification, given the circumstances of the Fund, and the principles contained in this SIP. The Trustee has consulted with the relevant employers in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy and at least once every three years.

Appendix 1 sets out details of the Fund's investment governance structure, including the respective key responsibilities of the Trustee, investment adviser and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.

2. Investment objective and strategy

The Trustee's primary objective is that the Fund should be able to meet benefit payments as they fall due.

This bulk annuity contract represents all of the Fund's invested assets. As such, the Fund is a wholly-insured scheme as defined within the Occupational Pension Schemes (Investment) Regulations 2005. The remainder of the Fund's assets (ie non-invested assets) are held within the Trustee bank account and escrow arrangement.

3. Considerations made in determining the investment arrangements

When deciding how to invest the Fund's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment (including bulk annuity policies) that could be used to closely match the Fund's expected benefit payments and the expected returns and risks associated with those asset classes.

In setting the strategy the Trustee also took into account:

- the best interests of members and beneficiaries;

- the circumstances of the Fund, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employers' covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken; and
- any other considerations which the Trustee considered to be financially material over the time horizon that the Trustee considered is needed for the funding of future benefits by the investments of the Fund.
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows:

- strategic asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- risks that are typically unrewarded, such as interest rates, inflation and currency, should generally be avoided, hedged or diversified;
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors; and
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions.

4. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustee has entered an agreement with JUST, under which JUST insures the Trustee's liability for specified member benefit payments. In line with this agreement, JUST makes payments to the Trustee's bank account to enable the Trustee to meet the insured benefits. JUST is an insurance company authorised by the Prudential Regulatory Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA"). Details of JUST are set out in Appendix 3.

The Trustee has limited influence over its insurer's investment practices. However, the Trustee would encourage the insurer to improve its practices if it became aware of any issues.

5. Realisation of investments

The annuity provider, JUST, is contracted to pay an amount equal to the members' pensions covered by its policy to the Trustee each month. Other than cash in the bank, the Trustee has no other assets where funds can be realised from.

6. Consideration of financially material and non-financial matters

The Trustee has considered how environmental, social and governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Fund and its members.

The Trustee expects its insurance provider to take account of financially material considerations (including climate change and other ESG considerations).

The Trustee has limited influence over the insurance provider's investment practices, but encourages its insurance provider to improve its practices where appropriate.

The Trustee does not consider any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

7. Stewardship

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. However, the Trustee no longer invests in asset classes with voting rights or significant engagement opportunities.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the insurance provider to exercise ownership rights and undertake monitoring and engagement in line with the insurance provider's general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries

Approved by the Trustee of the Sedgemoor Group Pension Fund on 8 May 2025

In broad terms the Trustee has decided on the following division of responsibilities and decision-making for the Fund. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that this division allows for efficient operation of the Fund overall, with access to an appropriate level of expert advice and service. The Trustee's investment powers are set out within the Fund's governing documentation.

1. Trustee

The Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employers;
- setting the investment strategy, in consultation with the employers;
- reviewing the investment policy as part of any review of the investment strategy;
- setting the policy for rebalancing between asset classes;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- formulating a policy on taking account of non-financial matters in the selection, retention and realisation of investments;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing (and, when necessary, dismissing) investment managers, insurance providers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP.

2. Insurance provider

The insurance provider's responsibility is to pay to the Trustee the benefits secured under the bulk annuity contract accurately and on a timely basis.

3. Investment adviser

The investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for:

- advising on how material changes within the Fund's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy; and
- participating with the Trustee in reviews of this SIP.

4. Fee structures

The Trustee recognises that the provision of advisory services to the Fund results in a range of charges to be met, directly or indirectly, by deduction from the Fund's assets. The Trustee has agreed Terms of Business with the Fund's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The fee structure has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Fund. However, the Trustee will consider revising any given structure if and when it is considered appropriate to do so.

5. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Fund's professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members.

6. Working with the Fund's employers

When reviewing matters regarding the Fund's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employers' perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employers, the Trustee believes that better outcomes will generally be achieved if the Trustee and employers work together collaboratively.

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Fund to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that the position may worsen to a greater extent in significant downside scenarios, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long-term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employers' covenant and how this may change in the near/medium future;
- the agreed journey plan and employers' contributions;
- the Fund's long-term and shorter-term funding targets;
- the Fund's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged; and
- the Fund's cash flow requirements.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are a number of different types of investment risk that are important for the Fund. These include, but are not limited to:

2.1. Risk of inadequate returns

A key objective of the Trustee is that, over the long-term, the Fund should have adequate assets to meet its liabilities as they fall due. There is also a risk that the performance of the Fund's assets and liabilities diverges in certain financial and economic conditions in the short term. The Trustee has managed this risk by entering into an annuity contract with JUST (which has assumed the risk of paying member benefits when they fall due).

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Fund's assets. The Trustee has managed this risk by entering into an annuity contract with JUST (which has assumed the risk of paying member benefits when they fall due).

2.3. Liquidity/marketability risk

This is the risk that the Fund is unable to realise assets to meet benefit cash flows as they fall due. The Trustee has managed this risk by entering into an annuity contract with JUST (which has assumed the risk of paying member benefits when they fall due).

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is subject to credit risk through its annuity policy. The Trustee is confident that its insurer has sufficient financial security to have a very high likelihood of remaining solvent and delivering the promised benefits through the lifetimes of the Fund's beneficiaries insured under the policy.

2.5. Currency risk

The assets of the Fund are not subject to any direct currency risk as none of the Fund's investments are held directly or indirectly in overseas markets.

2.6. Interest rate and inflation risk

These are the risks that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates and inflation expectations. The annuity policy matches the pensions payable to all the Fund's deferred and current pensioner members and as such, the Fund is not directly exposed to interest rate and inflation risk.

2.7. Climate-related risks

Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (eg extreme weather). The Trustee seeks to appoint an insurance provider who will manage this risk appropriately, and from time to time review how this risk is being managed in practice.

2.8. Other environmental, social and governance (ESG) risks

ESG factors are sources of risk to the Fund's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint an insurance provider who will manage these risks appropriately on its behalf and from time to time review how these risks are being managed in practice.

2.9. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Fund, and takes these into consideration as far as practical in setting the Fund's investment arrangements. An example includes sponsor covenant risk (the risk that, for whatever reason, the sponsoring employers are unable to support the Fund as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Fund's funding position falls below what is considered an appropriate level. The Trustee has mitigated these risks in respect to all of the Fund's deferred and pensioner members by purchasing an annuity contract.

1. Buy-in provider – Just Retirement Ltd (“JUST”)

The Trustee has selected JUST as a provider for a bulk annuity policy. The bulk annuity policy seeks to cover the benefits payable to all the Fund's deferred and current pensioner members. The objective of the policy is to match the Fund's benefit payments covered by the policy.

2. Additional Voluntary Contributions

The Trustee has selected Prudential as the Fund's money purchase AVC provider.