Carrs Billington Agriculture Pension Scheme

Statement of Investment Principles – November 2023

1. Introduction

The Trustees of the Carrs Billington Agriculture Pension Scheme (the “Scheme”) have drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. The Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited (“Mercer”).

In addition, the Trustees have consulted the participating employers Carrs Billington Agriculture (Operations) Limited and Carrs Billington Agriculture (Sales) Limited (“the Sponsors”) to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme’s investment arrangements and, in particular on the Trustees’ objectives.

2. Process For Choosing Investments

The Trustees have appointed Mercer to act as discretionary investment manager, by way of Mercer’s Dynamic De-risking Solution, to implement the Trustees’ strategy whereby the level of investment risk reduces as the Scheme’s funding level improves. In this capacity, and subject to agreed restrictions, the Scheme’s assets are invested in multi-client collective investment schemes (“Mercer Funds”) managed by a management company (Mercer Global Investments Management Limited (“MGIM”)). MGIM has appointed Mercer Global Investments Europe Limited (“MGIE”)) as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Scheme’s assets on a day to day basis.

In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees’ opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Scheme’s current and ongoing solvency funding positions. The Trustees recognise that equity (and other growth asset) investment will bring increased volatility to the funding level, but in the expectation of improvements in the Scheme’s funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Scheme can be met, through ultimately securing a buy-out in the future with an insurance company. In meeting this objective, the Trustees' further objectives are to:

- To pay due regard to the employers' interests on the size and incidence of contribution payments.

- To ensure that the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise;

- By means of an agreed combination of investment return and funding budget from the Sponsors, move the Scheme to a position of being 105% - 110% funded on the de-risked funding basis (gilts +0.25% p.a.) by 2029-2033, as a broad proxy for buy-out;

- In doing so, to opportunistically reduce the degree of risk in the Scheme's investment arrangements, thereby helping to protect the Scheme's improving funding position.

The Trustees recognise this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustees recognise that this introduces investment risk and these risks are discussed below.

The Trustees have agreed that the Scheme should move progressively towards a target of an entirely bond based investment strategy ("Matching Portfolio") as its funding level increases. The Trustees will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations. Non-financial considerations are discussed in Section 11.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities and the Sponsor's ability to support this mismatch risk.

- The Trustees recognise 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 volatility in the Scheme's funding position.

- To control the risk outlined above, the Trustees, having taken advice, set the split between the Scheme's Growth and Matching Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in Section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.

- Whilst moving towards the target funding level, the Trustees recognise that even if the Scheme's assets are invested in Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the

Scheme's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.

- The Trustees invest in leveraged LDI funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustees and Mercer review the Matching portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. To control this risk, the Trustees have delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular monitoring reports regarding the level of diversification within the Trustees' portfolio.

- To help the Trustees ensure the continuing suitability of the current investments, Mercer provides the Trustees with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for added value is more limited.

- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustees expect that the Scheme's assets are managed by appropriate underlying asset managers.

- By investing in the Mercer Funds, the Trustees do not make investments in securities that are not traded on regulated markets. However, should the Scheme's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure) such investments would normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees would ensure that the assets of the Scheme are predominantly invested on regulated markets.

- The Trustees recognise the risks inherent in holding illiquid assets. The Trustees have carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non sterling exposure is managed using currency hedging derivatives such as forwards and swaps.

- The Trustees recognise that environmental, social and corporate governance concerns, including climate change, have financially material impact on returns. Section 11 sets out how these risks are managed.

Should there be a material change in the Scheme's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustees, with advice from the Scheme's Investment Consultant and Scheme Actuary, review the Scheme's investment strategy approximately annually. Each review considers the Trustees' investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the initial review in 2016, the key decision was to seek a long term solution to "de-risk" the Scheme's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustees decided to engage Mercer to implement their de-risking strategy, by way of its Dynamic De-risking Solution. The approach undertaken relates the asset allocation to the Scheme's funding level (on an actuarial basis using a single discount rate of 0.25% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.25% basis"). The latest de-risking journey plan mandates the following practices:

- To hold sufficient growth assets to target a funding level of 105% - 110% on a gilts +0.25% basis between 2029-2033;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

Each strategy review takes account of the Scheme's funding level at the time of the review and expected contributions (if any) from the Sponsors. In designing the strategy, the Trustees consider carefully the potential impact of the de-risking strategy on the investment assumptions used when calculating the Scheme's future funding requirements.

Following the latest strategy review (implemented in September 2023), after a Sponsor consultation process, the Trustees agreed to de-risk the investment strategy to a 30:70% Growth/Matching Target Allocation and adopt the following funding level de-risking triggers:

Funding Level Band	Trigger to move into Band (Funding Level %)	Target Growth Allocation (% of total assets)
11		30.0
12	98.9	28.1
13	101.1	26.0
14	103.3	23.5
15	105.6	20.4
16	107.8	16.0
17*	110.0	0.0

* Band removed from Investment Management Agreement (IMA) to allow for discussion prior to further de-risking.

Once the funding level has moved through a funding level band, the asset allocation will not be automatically "re-risked" should the funding level subsequently deteriorate.

Responsibility for monitoring the Scheme's asset allocation, and undertaking any rebalancing activity, is delegated to Mercer. Mercer reports quarterly to the Trustees on its rebalancing activities.

6. Performance objective and tracking error targets

The performance objectives for the underlying portfolios that the Scheme was invested in at the date of this Statement are summarised in the table below.

However, at a total portfolio level:

- The level of expected return will change in line with different investment strategies. As such, as the Scheme's investment strategy changes and if, as expected, the Scheme's strategy de-risks over time to capture funding level improvements, the expected return from the assets will decrease (this is intuitive as there will no longer be a need to target a higher return if the funding level improves).

- In generating this target return the objective for the Growth assets of the Scheme is to generate a return of cash plus 4.0% p.a. net of fees whilst the objective of the Matching portfolio is to generate a return that is consistent with a target level of liability hedging in place. To generate such a return, the Matching portfolio is leveraged and the returns generated are expected to be a targeted multiple of the underlying returns generated by low-risk liability matching bonds.

- The target expected return for the Matching portfolio is consistent with the yields on medium and longer-dated gilts.

Mercer Portfolio	Benchmark Index[1]	Tracking Error Expectation (%p.a.)[2]
Mercer Low Volatility Equity (Unhedged/Hedged)	MSCI World (NDR) (Unhedged/Hedged)	n/a[3]
Mercer Global Small Cap Equity	MSCI World Small Cap (NDR) Index	1.5 – 4.0
Mercer Sustainable Global Equity (Hedged/Unhedged)	MSCI World (NDR) Index (Hedged/Unhedged)	1.5 – 4.0
Mercer Infrastructure Equity (Hedged)	FTSE Global Core Infrastructure 50/50 (NDR) Hedged Index	1.5 – 4.0
MGI UK Equity	FTSE All-Share Index	1.5 - 4.0
MGI Eurozone Equity (Unhedged/Hedged)	MSCI EMU (NDR) Index (Unhedged/Hedged)	1.5 – 4.0
MGI Emerging Markets Equity	MSCI Emerging Markets (NDR) Index	1.5 – 4.0
MGI Emerging Markets Debt	JP Morgan GBI-EM Global Diversified Index	1.0 - 3.0
Mercer Emerging Market Debt – Hard Currency	JP Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified) ex CCC Index	1.0 - 3.0
Mercer Global High Yield Bond (Unhedged/Hedged)	ICE BofAML BB-B Rated Developed Markets High Yield Constrained Hedged Index (Unhedged/Hedged)	0.5 – 2.0
Mercer Multi Asset Credit (Hedged)	FTSE GBP 1 Month Euro Deposit Index +3-5% p.a.	5.0 - 10.0 [4]

[1] *Hedged indices are proxied by Mercer using local index returns.*

[2] Measured over rolling 5 year periods unless otherwise stated.

[3] *Aims to match the MSCI World Index with absolute volatility 20% lower than the index over rolling 5-7 year periods.*

[4] *Expressed as expected volatility (annualised standard deviation of monthly returns) ranges given these strategies have a cash plus objective.*

Mercer Portfolio	Benchmark Index[1]	Tracking Error Expectation (%p.a.)[2]
Mercer Absolute Return Fixed Income (Hedged)	FTSE GBP 1 Month Euro Deposit Index +1.5% p.a	Less than 5.0 over rolling 3 year periods
Mercer Diversifying Alternatives Strategies (Hedged)	HFRI FoF: Market Defensive Hedged Index [6]	5.0 - 7.0[5]
Mercer UCITS Alternatives Strategies (Hedged)	HFRI FoF: Market Defensive Hedged Index [6]	5.0 - 7.0
Mercer High Income UK Property CCF	75% FTSE A UK Index-Linked Gilts 5-15 year; 25% FTSE A Over 15 Year Gilts Index	n/a
Mercer Passive Global REITS UCITS CCF (Hedged)	FTSE EPRA/NAREIT Developed REITs (NDR) Hedged Index	Less than 0.25%
Mercer Dynamic Asset Allocation Fund Hedged[7] -Frontier Markets Debt -Asian High Yield Bonds -Convertible Bonds -Japan Equity	-JP Morgan EMBI Global Diversified (Hedged) Index -JP Morgan JACI Non-IG (Hedged) Index -1-2% over Refinitive Convertible Global Focus Index (USD hedged) -FTSE Japan Index	n/a
Mercer Synthetic Equity linked Real and Nominal Bonds	As portfolio	n/a
MGI UK Long Gilts	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	Less than 0.25
MGI UK Inflation Linked Bonds	FTSE Actuaries UK Index-Linked Gilts Over 5 Years	Less than 0.25
Mercer Flexible Enhanced Matching Fixed – Short, Medium and Long	Blackrock Custom Benchmark	n/a
Mercer Flexible Enhanced Matching Real – Short, Medium and Long	Blackrock Custom Benchmark	n/a
Mercer Tailored Credit Fund 1	n/a [8]	n/a

5 *This is the expected risk target for the fund, this is an absolute value not measured relative to the benchmark.*

6 *This is the short term outperformance target for the strategy, the long term benchmark is Cash +3-5% (net of fees) for Mercer Diversifying Alternatives Strategies and Cash +3% (net of fees) for Mercer UCITS Alternatives Strategies.*

7 *At the time of writing this document, the portfolio invests Asian High Yield Debt, Convertible Bonds, Japan Equity and Frontier Market Debt Fund. The benchmark and tracking error target for this portfolio will vary over time depending on the underlying portfolio composition.*

8 *This fund is not comparable to a benchmark index due to the nature of buy and maintain strategies, and hence has no quoted benchmark or tracking error target. The fund aims to capture the credit spread premium in the most efficient way by investing in a diversified portfolio of bonds.*

7. Myners Investment Principles

The Trustees recognise the relevant to pension schemes of the Myners' investment principles that were first published by the Government in October 2001.

The Trustees' adherence (or otherwise) to the latest Myners' Principles is set out below.

Effective decision making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation."

"Trustees should have sufficient expertise to be able to evaluation and challenge the advice they receive, and manage conflicts of interest."

The DB Investment consultant, Mercer, is appointed who advises on the Scheme's investments and provides independent regular monitoring reports and updates on the Scheme's investment arrangements. The Investment Consultant attends Trustees' meetings.

Trustees receive regular training, where appropriate, to maintain good levels of knowledge on relevant issues.

The Trustees consider that the board of Trustees is small enough to efficiently take investment decisions without the need for an investment subcommittee.

The Trustees have considered the TPR's Trustee Toolkit and guidance on conflicts of interest.

Clear objectives

"Trustees should set out an overall investment objective (s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisors and investment managers."

As part of the investment strategy review carried out in 2016, investment objectives were set for the funding of the Scheme and the reduction of the deficit.

Based on this and the objectives for deficit reduction, a de-risking strategy based on funding level triggers has been put in place.

These objectives will be reviewed as part of the detailed investment strategy reviews every three years, in conjunction with the actuarial valuation. There will also be an annual recalibration of the de-risking triggers.

Benchmarks and performance targets have been set for each fund and underlying managers in which the Scheme invests.

The Trustees regularly monitor the development of the Scheme's funding level and performance of the investment arrangements via the monthly/quarterly reporting process and at each Trustees' meeting.

An implemented framework has been put in place with Mercer in order to look to achieve the Trustees' objectives.

Risk and liabilities

"In setting and reviewing their investment strategy, the trustees should take account of the form and structure of the liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and the longevity risk."

The Trustees are aware of the form and structure of the Scheme's liabilities as discussed with the Scheme Actuary and set out in the actuarial valuation reports produced by the Scheme Actuary every three years.

The Trustees have put in place a funding based de-risking mechanism and has implemented this via an arrangement with Mercer.

The Trustees have access to web based daily monitoring of the development of the Scheme's assets, liabilities and funding level.

As part of the investment strategy review, the Trustees have consulted the Scheme sponsors with regard to their objectives and the ability to fund the Scheme.

The Trustees and Sponsors accept underperformance due to market conditions as part of their overall investment strategy and the current mismatch between the assets and liabilities. As part of the reviews of investment strategy undertaken and the de-risking framework in place, such a mismatch has been significantly reduced through the introduction of investments which reduce the sensitivity of the funding level to changes in interest rates and inflation. These risks are monitored regularly.

Performance assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors."

"Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

The Scheme receives quarterly performance reports from Mercer and the investment consultant provides an overview of this at each Trustees' meeting. If required, the designated Mercer portfolio manager can attend meetings to cover strategic or manager performance items in more detail.

Trustees' attendance at meetings is recorded in the minutes.

When appointing Mercer, the Trustees considered the wider Carr's Group relationship with Mercer and sought to leverage the due diligence carried out as part of that appointment. The final decision was taken to implement the de-risking framework with Mercer in late 2016.

The Trustees will continue to review the market and its advisors as appropriate.

Responsible ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents."

"A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles."

"Trustees should report periodically to members on the discharge of such responsibilities."

The Trustees have delegated day to day management of the assets to Mercer who in turn delegates responsibility to a range of underlying investment managers.

The Trustees believe that good stewardship and environmental, social and corporate governance ("ESG") issues can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty. Mercer supports and expects the investment managers who are registered with the FCA to comply to comply with the UK Stewardship Code (the Code), including public disclosure of compliance via an external website.

An assessment against the seven underlying principles of the UK Stewardship Code is part of the Mercer review process of all underlying equity managers.

A statement of the Scheme's policy on responsible ownership is included in section 11 of the SIP.

Transparency and reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives."

"Trustees should provide regular communication to members in the form they consider most appropriate."

The Trustees will provide a copy of the current SIP on request to Scheme members.

Scheme members receive an annual review of performance as against the agreed benchmarks in the Trustees' Annual Report to members. Members are also updated on any key investment decisions taken by the Trustees.

The Trustees recognise that there is a requirement to demonstrate good governance and to be transparent and accountable to Scheme members.

8. Realisation of Investments

The Trustees on behalf of the Scheme hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

9. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Scheme's assets in line with the Scheme's strategic allocation. Mercer is responsible for raising cash flows to meet the Scheme's requirements.

10. Rebalancing

As noted, responsibility for monitoring the Scheme's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the actual balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the actual balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weighting, under the new de-risking band, as defined in Section 5.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustees and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

11. ESG, Stewardship, and Climate Change

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's (and the Trustees') thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's and MIGIE's investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and other asset classes where relevant and data is available, along with climate transition analysis for diversified portfolios.

The Trustees also note Mercer's commitment to a target of net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi asset funds domiciled in Ireland.

Mercer's Climate Change Management report highlights the approach to the TCFD framework in more detail, including example analysis on strategy targets and metrics.

A detailed standalone sustainability monitoring report is produced for the Sustainable Global Equity fund (part of the Scheme's Growth Portfolio) on an annual basis. The approach considers revenues that positively and negatively contribute to environmental and social outcomes (also mapped to the SDGs).

The Trustees recognise the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions in relation to particular Mercer Funds.

12. Trustees’ policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustees’ investment strategy outlined in Section 5, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme’s assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees’ overall investment strategy as outlined in section 5. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer’s performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees’ policies, it is open to the Trustees to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer’s appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme’s funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustees review the absolute performance and relative performance against a portfolio’s and underlying investment manager’s benchmark (over the relevant time period) on a net of fees basis. The Trustees’ focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer’s and MGIE’s assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager’s responsible investment philosophy aligns with the Trustees’ own responsible investment policy. This includes the asset managers’ policies on voting and engagement.

Section 11 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund’s investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE’s expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 3. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.